The MAGAZINE of WALL STREET

and BUSINESS ANALYST

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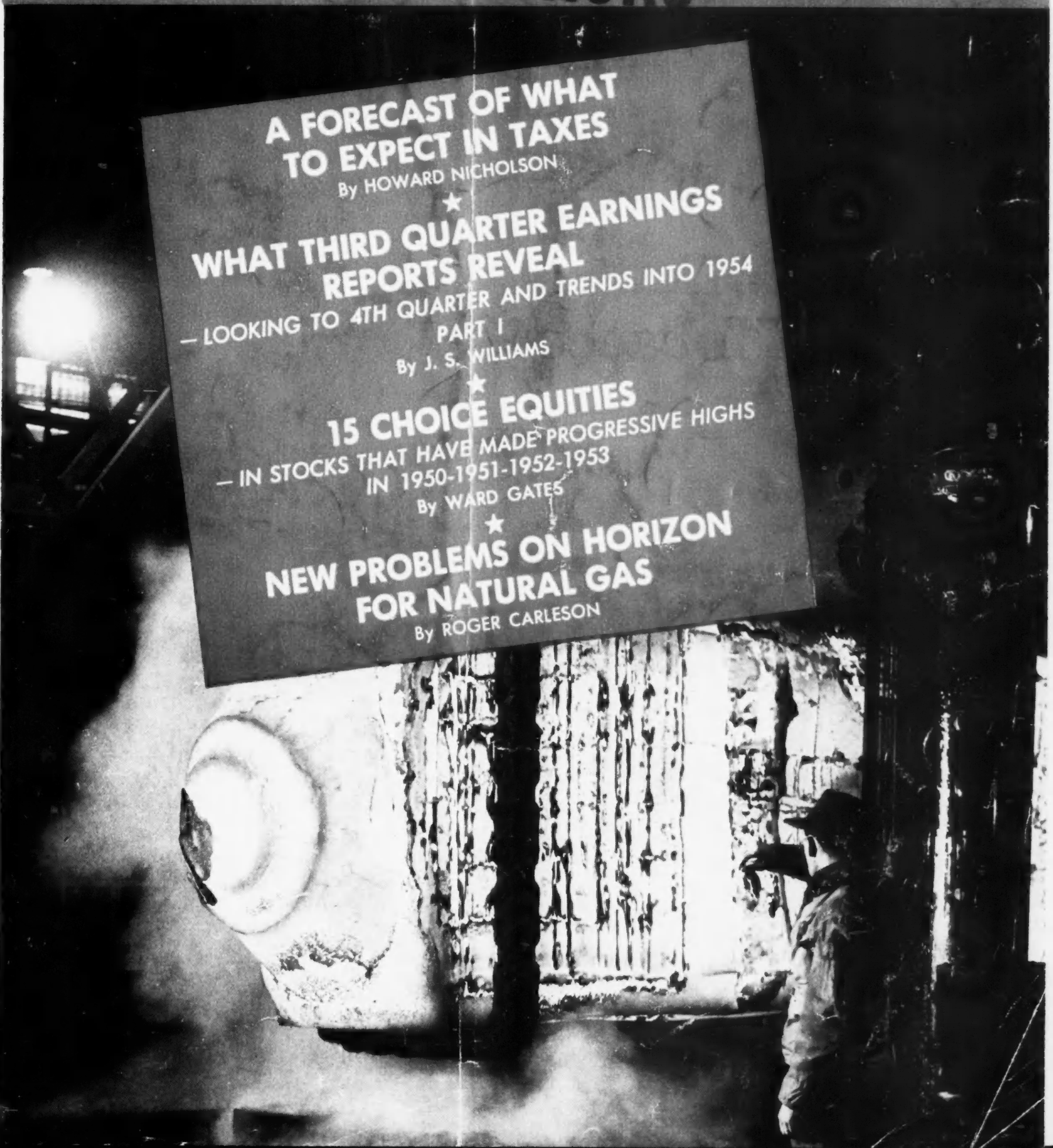

A FORECAST OF WHAT TO EXPECT IN TAXES

By HOWARD NICHOLSON

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By ROGER CARLESON

SMOKING PLEASURE . . . PAST AND PRESENT

Worth Her Weight in Tobacco!

In 1619, a group of young English girls were welcomed with open arms by the bachelors of Jamestown. The Virginia settlers had agreed to pay a marriage fee of 120 pounds of tobacco for a wife. The "golden weed" was so precious it was considered fair trade for a fair bride!

From colonial times to the present, tobacco has flourished on the American scene. Its popularity started with pipes and kept growing through chewing tobacco, cigars and cigarettes. P. Lorillard Company has grown up with tobacco . . . brought smoking pleasure to Americans ever since 1760.

As America's oldest tobacco merchants, Lorillard knows what smokers want. In the past year alone, two new Lorillard products have won countless friends: KENT cigarettes with the new *MICRONITE* filter and OLD GOLD in the popular king size length. Since its introduction Kent has received the most enthusiastic reception of any new brand of cigarettes of the past 20 years.

Lorillard's many fine tobacco products are backed by nearly 200 years of tobacco experience. P. Lorillard Company—and Lorillard stockholders—are confident that this rich past will continue to build future success.

Leading Products of
P. LORILLARD COMPANY

Cigarettes

- *OLD GOLD
- KENT
- EMBASSY
- MURAD
- HELMAR

Smoking Tobaccos

- BRIGGS
- UNION LEADER
- FRIENDS
- INDIA HOUSE

Cigars

- MURIEL
- HEADLINE
- VAN BIBBER
- BETWEEN THE ACTS

Chewing Tobaccos

- BEECH-NUT
- BAGPIPE
- HAVANA BLOSSOM

*Regular and King Size

P. Lorillard Company

AMERICA'S OLDEST TOBACCO MERCHANTS • ESTABLISHED 1760

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and BUSINESS ANALYST

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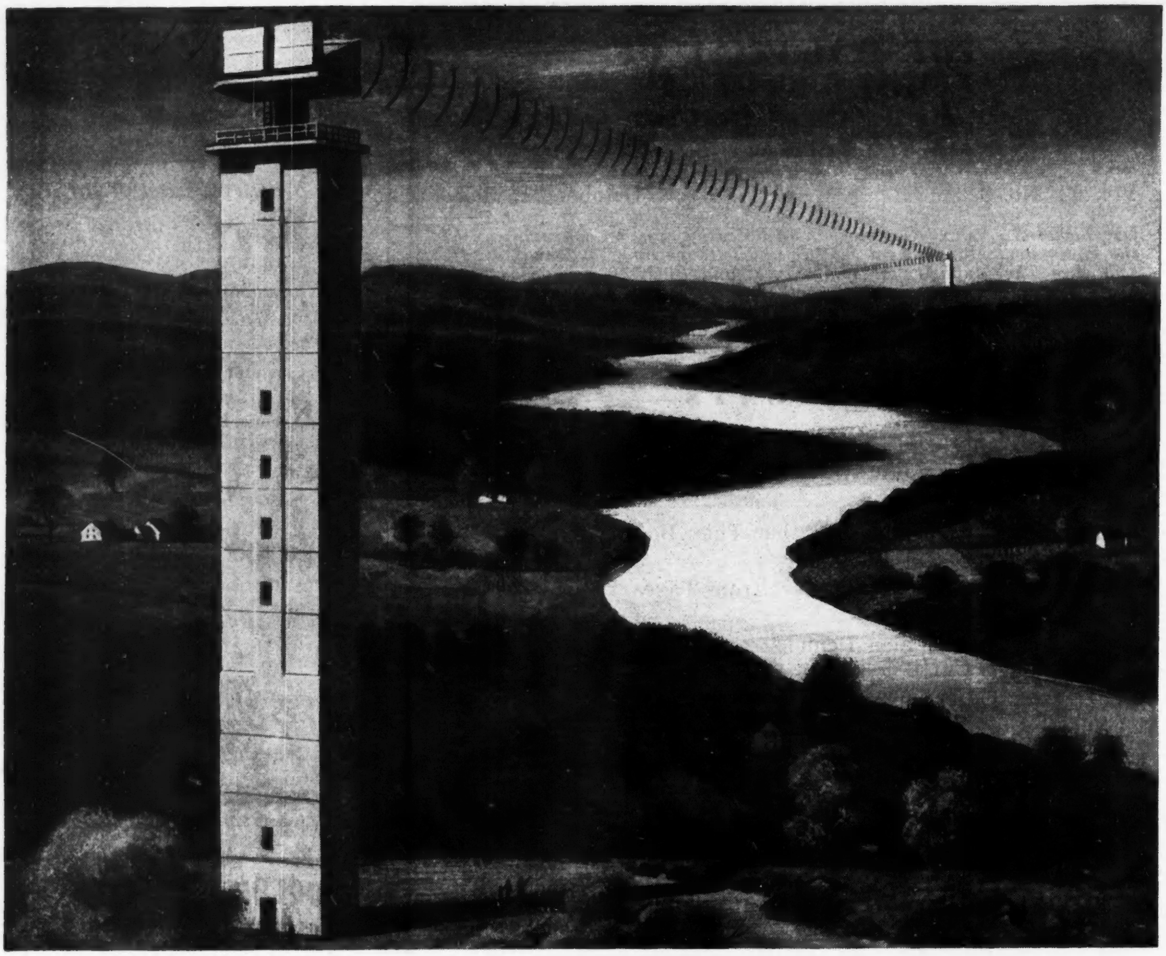
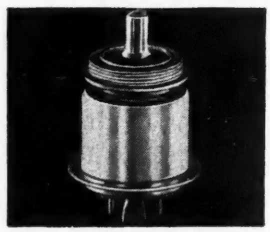


SPANS NATION WITH WORDS AND PICTURES. Bell System Radio-relay beams microwaves from tower to tower throughout the nation. This supplements wire and cable lines.



THE #416 VACUUM TUBE
Incredibly small spaces between electrodes enable this Bell System tube to relay microwaves over long distances without appreciable distortion or deterioration.

The Heart of a Widening Skyway of Communication

Extra-sensitive radio tube, designed by Bell Telephone Laboratories, helps send Long Distance calls and Television programs across country

When telephone scientists first conceived the idea of a vacuum tube like this, they wondered if human hands and machines could ever make anything so delicate. For inside the tube are wires so fine that sixty of them, twisted together, are only as thick as a human hair.

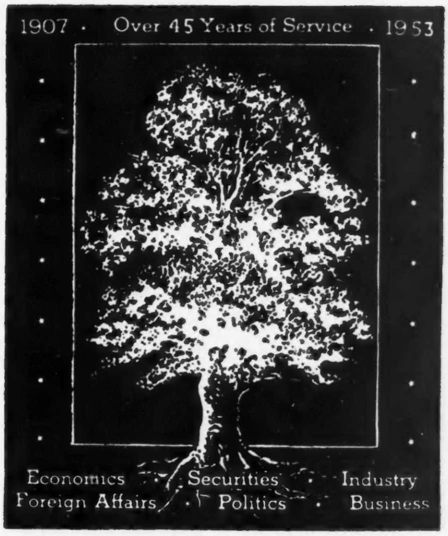
Chances are you'll never see one of these little tubes. But every day they do some big things for millions of people. They help make possible the microwave Radio-relay networks that carry Television programs as well as Long Distance calls throughout the nation.

Underground, overhead, in the air—in research and in manufacturing—in transistors and in vacuum tubes—the Bell System uses every possible means to extend and improve your service.

BELL TELEPHONE SYSTEM LOCAL *to serve the community.* NATIONWIDE *to serve the nation.*

THE MAGAZINE OF WALL STREET

C. G. WYCKOFF, *Editor-Publisher*



The Trend of Events

WHAT THE PRESIDENT FACES . . . In the very near future, President Eisenhower will have to come to grips with national problems gathering in intensity with each passing month. Decisions can no longer be postponed and they will have to be made immediately on the reconvening of Congress.

As pressure commences to mount, action will become more imperative than ever. It is already quite apparent that the appointment of Presidential Commissions and Committees, while desirable as a basis for study and investigation, will not prove adequate as a means of solving the immediate problems of the government.

The chief problems, all of which are involved in coming legislation, are: the budget, which is complicated by changing defense requirements; taxes, which are likely to be subject to almost daily revision until their final form can be cast; relief of one sort or another for the farmers; social security expansion; tariffs and reciprocal trade, and foreign aid.

All of these objectives will have to be accomplished against a background of rapidly changing international conditions which may bring about entirely unforeseeable developments that could conceivably have a drastic effect on the President's program. Of equal importance is that our domestic economy is in process of adjustment. To meet these changing business conditions, the Administration may be required to shift its position from time to time in order to leave room for decisions that may have to be kept temporarily in abeyance until further clarification of the basic trend is possible. All this is likely to take place at a time when political pressures arising from the approaching political campaign may prove difficult to resist.

Probably never in our history has a President faced such a formidable task. With his own party divided on specific issues, his difficulties are greatly magnified.

The support that he will most value must, therefore, come from the people themselves. If they clearly understand the reasons for his program, the support will be forthcoming.

We recommend to the attention of our readers the analytical discussion of business trends contained in our column "What's Ahead for Business?" This regular feature represents a valuable supplement to Mr. A. T. Miller's stock market analysis of importance to investors as well as to business men. To keep informed of the forces that may shape tomorrow's markets, don't miss it!

SEAT OF THE TROUBLE . . . Despite surface indications to the contrary, basic economic conditions in Europe have not improved in the past two years, with the exception of West Germany and Belgium. In France, conditions are chaotic. In Great Britain the situation has improved but is by no means sound as yet. The Netherlands, Italy and the Scandinavian countries, even Switzerland, have not shown any appreciable gains since 1951.

Many European observers ask why economic conditions should be relatively so sluggish on the Continent when the United States is so prosperous. The answer probably is to be found in the traditional handicaps that hamper progress in Europe. Europeans have still to learn that the prosperity of a nation depends on stimulating the income of the broadest masses of the population, which in

BUSINESS, FINANCIAL *and* INVESTMENT COUNSELLORS : : 1907 – *"Over Forty-five Years of Service"* – 1953

turn depends on increasing their productivity to the maximum possible. It is obvious that the Europeans have failed woefully on this account.

European businessmen are too unwilling to take risks. In this respect they are in marked contrast to the average American businessman to whom the acceptance of risk is normal.

Many Europeans have visited our plants to learn our latest methods of production. This is all helpful but they may gain a great deal more by studying the men behind the methods. In these individuals, they will see imagination, daring and an eagerness to apply new techniques on a scale unsurpassed in the world. Our visiting friends can profit by instilling themselves with more of this spirit of adventure.

RESPONSIBILITY OF STATE AND LOCAL GOVERNMENTS... One of the most important national objectives should be to restore a sounder balance between Federal and State governments. For the past two decades the trend has been in the direction of lessening the responsibility of the smaller political subdivisions, a situation encouraged by the rising encroachment of the federal government on their normal functions.

During the depression, it was natural for the weaker communities, heavily involved in relief and emergency programs, to seek relief from Washington. Unfortunately, dependence on the government has persisted despite that the depression has long since been conquered. It may be surprising to know, as the U.S. Chamber of Commerce has pointed out, that the Federal government is still supporting more than forty different programs in various states and communities, with the cost placed at $2.3 billion annually. These programs encompass support for such purposes as aid to the blind; aid to dependent children; general health assistance; hospital construction ,school lunches, education, airports and highways. No one would deny the need for such vital aid but many of these functions properly belong to state and local governments, or both.

It is claimed that transposing some of these functions from the Federal government to the States and the other local bodies would save the Treasury almost $1 billion a year. Regardless of the amount, the system of Federal grants needs complete overhauling. This would have the beneficial effect of reducing the existing monumental over-lapping of federal and state-municipal taxes, a development which threatens to become dangerous to the various governments and citizens alike. Furthermore, restoration of a better balance between the Federal government and the States and other political sub-divisions would enable these communities to regain a much greater share of their control over their own affairs than has been true for too long a period of years. This would be highly desirable under our system of political democracy.

"TAX LOSSES"... This is the season when investors are prone to become tax conscious; and who can blame them? Thousands of words are poured out daily advising investors to take account of their tax position and especially to take inventory of their portfolios to see whether they might not advantageously establish tax losses. Such advice is well-meant and some of it may be useful but it might be even more useful to assist investors in getting rid of some misconceptions on this vexing problem.

The trouble is that many investors get into the habit of establishing tax losses without reference to whether the acceptance of specific losses is sensible on the basis of the investment value of the individual securities involved. It often happens that the sale of stocks for tax purposes, when done indiscriminately, unnecessarily sacrifice a basically sound position. If stock "A", a fundamentally attractive issue, is sold just in order to establish a tax loss, the savings may be quite small compared to the eventual profits that may be obtained by holding the issue. On the other hand, if the issue is fundamentally unattractive, a double objective is secured by selling, first, in getting rid of an undesirable holding and, second, to benefit from the tax-savings. Under the latter circumstances, the acceptance of tax losses can prove truly advantageous.

The moral, of course, is that investors should not over-emphasize the value of tax benefits through acceptance of losses on their securities. The first and foremost consideration should always be the investment value and potentialities of the security itself. Above all, investors should use discrimination in following a practice which seems to have become too widespread in recent years.

THAT LIVING-COST INDEX... Escalator clauses in wage contracts are pulling real rabbits out of imaginary hats for members of the major national unions. The rest of us are paying for the rabbits.

Most recent increase in wages was 3 cents an hour for a million railroad workers, based on the movement of the Consumers' Price Index to a new high by a fraction of 1 per cent. Actually, the factors which moved the index to its new peak were such highly special circumstances as the first full month of operation of the New York City subways under a 15-cent fare, and the easing of rent controls in that and several other large Eastern cities. These changes went into the Transportation and Housing categories of the index. Obviously, in the very nature of railroad operation, only a tiny fraction of railroad workers were affected by either of these changes.

There is no disposition here to argue that the cost of living isn't high, or even that it isn't at an all-time high. It does seem, however, that the nation could muster enough common (*Please turn to page* 166)

ANNOUNCEMENT!

We want to call your attention to two important features appearing in the next issue:

1. ***Aviation Moves into New Period of Dynamism***
2. ***An Expert Opinion of the Outlook for the Railroad Industry***

These articles give the broadest possible coverage to significant developments within these industries. Prepared by two of the leading authorities in the respective fields, they will be invaluable to investors.

As I See It!

By JOHN CORDELLI

THINGS HAVE BEEN DONE AND WELL DONE

Peace and freedom are only won in the same way that great wars are won—that is by sustained sacrificial effort, by affirmative planning, by broad cooperation, by technical competence, and, above all, by clarifying the issues so that we strive only for what is right.

Secretary Dulles in his Tribune Forum speech.

Were there any doubts about the ablity of our Secretary of State, Mr. John Foster Dulles, to wage diplomatic warfare against the Soviet Union, his speech closing this year's Herald Tribune Forum should dispel them. Vigorous and confident, Mr. Dulles, who had just returned from the London meeting of the "Big Three," took the American public into his confidence by revealing his method of approach to the problems of the day and his diplomatic technique in handling them.

Mr. Dulles revealed himself in his Forum speech, which will come down as one of his best, as a modest, patient, hard-working man who is seeking to translate the broad principles of freedom and human dignity motivating the foreign policies of this country into practical, workable terms. The humble spirit and the patient study with which Mr. Dulles approached the tasks of his office in the early months of the year were misinterpreted by his critics. But by last summer his astuteness and his patiently acquired grasp of the role that the United States must play as the leader of the free world began to pay dividends. Mr. Dulles would probably be the first to deny his share in these events but the fact remains that the free world has been winning the battles of the cold war with international communism and that it has succeeded in wresting the initiative from the masters of the Kremlin.

"MAKING THE GRADE ON A ROUGH ROAD"

Wood in The Richmond News-Leader

The most important event since the summer has been, of course, the end of war in Korea. By agreeing to the truce, Washington served notice that it was just as eager as Moscow for peace and the ending of bloodshed.

The rebellion in East Germany and Czechoslovakia served warning on Moscow that the satellite regimes would stand little chance of surviving were it not for proximity of Russian tanks. The rebellion speeded up the diversion of some industries with considerable capacity from military to civilian production, forcing down the tempo of Russian armament efforts.

The collapse of the Mossadegh misrule and the successful establishment of the pro-Western Government of General Zahedi has removed—at least temporarily — the danger of the Persian petroleum resources falling under Soviet control. The fact that Russia has accepted the change without a show of hostility may be explained partly by the cynicism the communists have adopted toward government changes in Persia, hoping secretly that conditions will return to the old chaos. It has also been suggested that Soviet interest in Iranian petroleum may have waned because of the progress made in Russia in the industrial application of atomic energy. There is reason to believe that several huge power plants now being built in Central Asia are tied to Soviet atomic projects. Also, in the diverting of the flow of certain Asiatic rivers Kremlin may be trying to make practical use of the explosive power released in atom fission tests.

Anglo-Egyptian tension has relaxed and it seems that the two countries (*Please turn to page* 168)

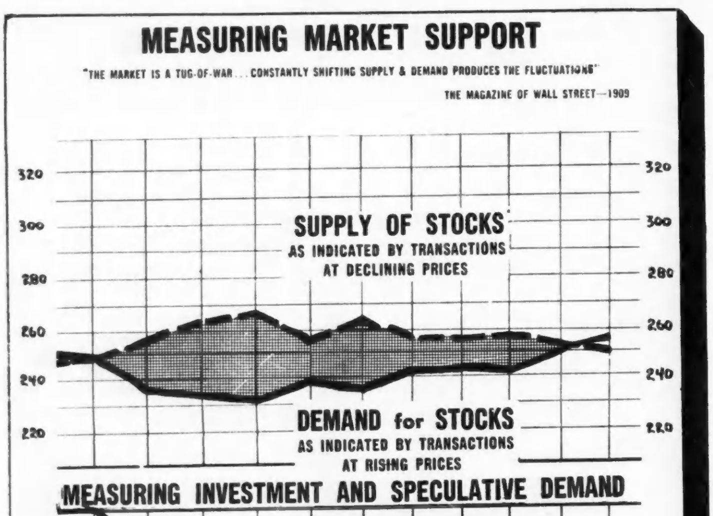
Market Acts on Technical—Rather Than Basic Factors

In a continuing highly selective market, the recent recovery swing carried further over the past two weeks under industrial and utility leadership. A basis for wide general market advance or decline is not presently evident. Maintain adequate reserve buying power. Emphasis on investment quality and divergent company prospects will continue to pay off.

By A. T. MILLER

The phase of market recovery begun in mid-September, following a nine-month zig-zag downward pattern, was extended substantially, with a moderate increase in trading activity, over the past fortnight. To the extent that it can be appraised in general terms (the widely divergent trends of individual stocks defy generalization), it is in large measure a normal technical rebound from an over-sold position reached on the August-September phase of decline—that is, the usual working of the stock market's rough law of action and reaction.

However, it is also in some measure a reflection of an appreciable improvement in investment sentiment. This is due to (1) the quite limited scope of easing in general economic activity to date, whereas there had been earlier fear of a more definite retrogrssion in this final quarter of the year; (2) to apparently increasing opinion that 1954 business recession will be relatively mild, with the great majority of projections allowing for a level of industrial production about 10% under the average of this year; (3) to the Administration's indicated shift to anti-deflation policies in monetary management and otherwise, in contrast with earlier anti-inflation policies; (4) to more current emphasis on nearing lapse of the excess profits tax; (5) to a feeling that, aided by EPT lapse, average 1954 corporate earnings, although lower, should be at a fairly good level relative to present stock prices, possibly supporting average dividends around or close to the indicated record 1953 level.

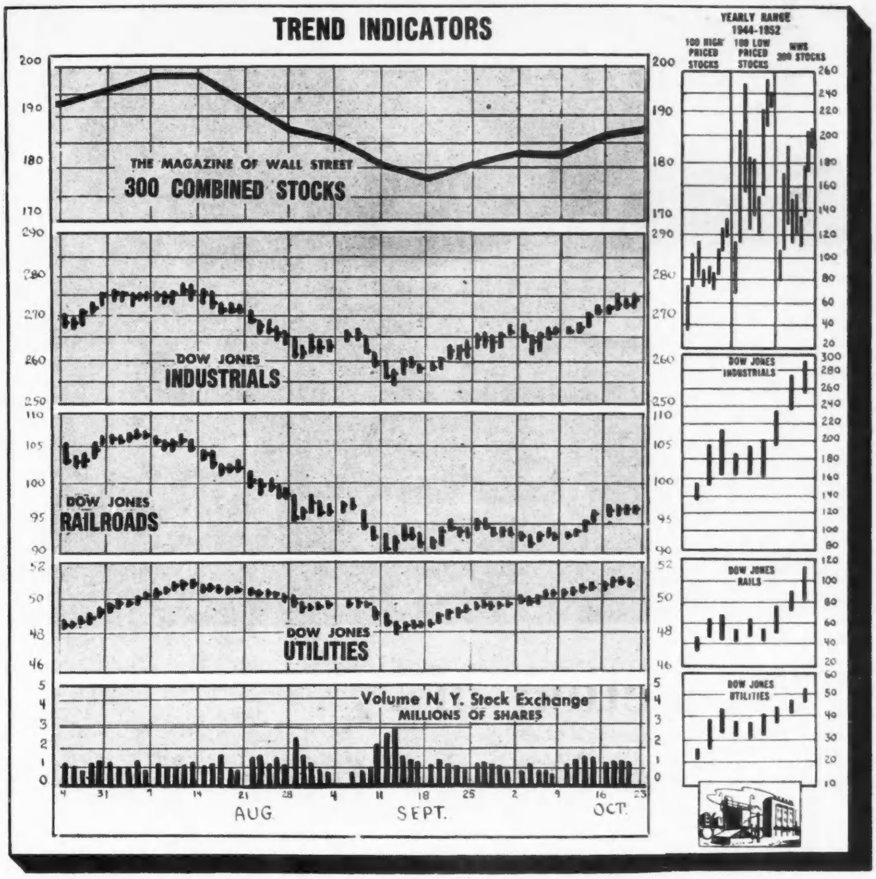


The Technical Pattern

The Dow industrial average has now made up about 93% of its August-September decline, the rail average about 45%. More directly reflecting the reversal of money-market rates, which is due to a combination of less active demand for credit and the easier-money policy of the Federal Reserve, the utility average has risen above its best summer level; and is only moderately under the bull-market high recorded last March. In contrast with industrials and rails, the utility average made its 1953 low to date in June, rather than September. Allowing for the rising trend of utility earnings and dividends, the industry's high, if not full, immunity to 1954 business recession, and for the money-market outlook, it seems

as nearly certain as anything in the stock market can be that the June low for this group will stand as the bottom both for 1953 and for the presently foreseable future.

In terms of percentage retracement of the prior phase of decline, the industrial average has made a much better showing on the recovery swing than it did on the June-August summer recovery; while rails, on the same comparison, have made a considerably poorer showing. The reason is that there is more investment quality in the industrial than the rail average; and that rail earnings will shrink more, on average, in any degree of business recession than will industrial earnings. That has always been so; and the differential will be wider in the present instance because few rails will get any support from EPT lapse, while many industrials will.



Again in terms of retracement of prior decline, both the industrial and rail averages in this recovery so far have not matched their upswing of last February-March, which was the rebound from the first sell-off from the bull-market highs recorded around the start of the year. Their downward pattern, characterized by descending tops and bottoms on the intermediate price swings of the past nine months or so, is still unbroken. The chances that the industrial average can penetrate its summer recovery high are conjectural, even though the remaining distance at this writing is slight; and a penetration would still leave it much short of the major top of last January. The chances of a penetration of the summer rally high by the rail average on the present recovery swing would appear to be slight.

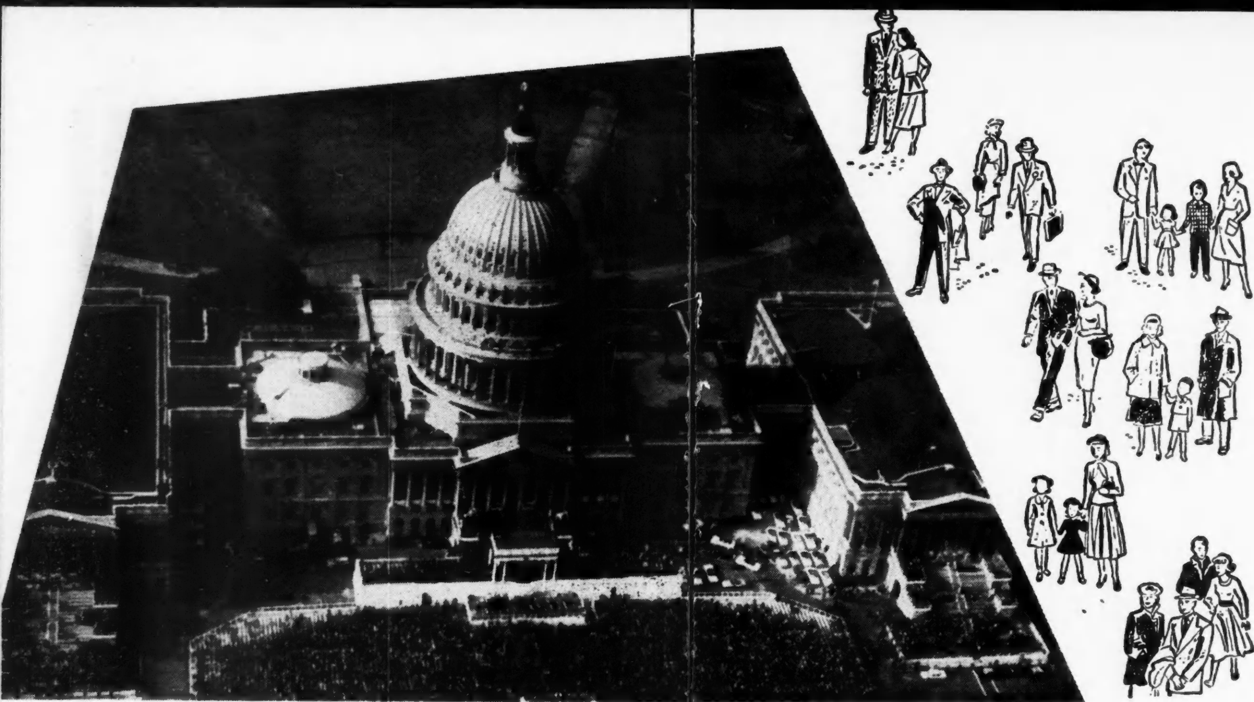
With the averages moving up, and the averages are mentioned merely as a convenience in describing the market than as an actual guide—more individual stocks have recorded new lows for the year or longer on this phase to date than have recorded new highs. The reason is simple. Especially in the case of industrials, and even to some degree in that of rails, there are more inferior stocks which are not included in the Dow averages than are in them. Regardless of the averages, we have bull markets in a minority of stocks, bear markets in a majority. In the great majority of cases, the stocks recording new highs during the last fortnight have one or more of these characteristics: above-average investment quality; superior prospects for 1954 earnings and dividends, either because of normal stability of company operations or special reasons, as in the case of aircrafts; material-to-large benefit from EPT lapse. In a few cases, boosts in dividend rates or unexpectedly good extras have put stocks to new highs.

The Other Side of the Picture

Some recent new lows have been accounted for by bad dividend news (examples: U. S. Lines, Minneapolis-Moline, White Sewing Machine); others by uncertain or adverse industry or company prospects. The list includes quite a few oil, textile, coal, farm-equipment, sugar, machinery, metal mining and building-supply stocks. To mention just a few of the more prominent: U. S. Plywood, Allis-Chalmers, Amerada, Burlington Mills, Skelly Oil, Cerro de Pasco and Tide Water Asociated Oil.

A partial list of stocks showing more or less outstanding recent or current strength includes Columbia Broadcasting, Florida Power & Light, Gillette, Lockheed, Eastman Kodak, Champion Paper, International Paper, Minneapolis-Honeywell, Revere Copper & Brass, Rohn & Haas, Wrigley, Continental Can, Detroit Edison, Douglas Aircraft, Minnesota Mining & Manufacturing, Pfizer, Borden, Sutherland Paper, Kroger, Consumers Power, General Telephnne, Vick Chemical and United Aircraft.

The near unanimity of opinion among business managements, economists and other forecasters that 1954 production will average only 10% or so (or less) under that of 1953 raises a question. A strong and widely held conviction on what is ahead is rarely right, judging by all past experience. It is usually confounded in one way (*Please turn to page* 168)



A Projection of . . . What To Expect from Taxes

By HOWARD NICHOLSON

The Administration has not entirely abandoned its efforts to balance the budget and afford some tax relief, but the most optimistic of the President's counselors and supporters do not see that balance as a reality for another two years while tax relief is going to be more of a mirage than a reality. There will be some relief for the individual and for corporations, but of necessity the Government will have to seek substitute revenues for those now scheduled for reduction or discontinuance with the end of this calendar year, and those which are slated for reduction next April 1.

Confronting those who must keep government income closer to outgo is the politically unpalatable necessity of reneging on campaign assertions that we can have a balanced budget along with tax relief. There is no way to retreat from the fact that the excess profits tax will die with the close of the year, nor can the Administration dodge the automatic January 1 reduction of levies on personal incomes. Even if called in extra session to continue the EPT and present rates on individuals, the Congress probably would refuse to extend them beyond present deadlines.

Aware of this situation, the Administration can only plan for new sources of revenue, sources which will get the needed funds yet give the electorate some sense of relief from the inordinately high levies prevailing at a time when we are not engaged in a shooting war. In addition, the Administration will have to muster the political courage to ask Congress to continue the present corporate income rate beyond the April 1 deadline and keep at present levels those excises scheduled for automatic reductions on the same date. More on these later.

Another specter haunting those who must plan for Government income is a possible business recession which would curtail Federal revenues. Recession is a "fighting" word in Government fiscal circles, but those who have a finger on the industrial-economic pulse privately admit that it is a distinct possibility; even more privately admit that faint symptoms of it are here now. They do not, however, see a real depression. But, a recession of real proportions could flood the Treasury with red ink and bring a demand that the statutory debt limit be hiked to $300 billion, which would touch off a serious inflationary spiral.

Just how serious a recession could be from the Treasury's viewpoint, the writer has selected two types of recessions which have been experienced in recent years, 1949 and 1938. If we are to experience a recession of the 1949 type, when the industrial index fell to 215 (1935-1939=100), Federal revenue would be reduced by around $14 billion. Decline in corporate tax receipts would account for $6 billion, the decline in individual income levies would account for $5 billion, declines in other receipts (excises, import duties, etc.) $1 billion, while adjustment for the 10 percent reduction on individual income tax rates would shave another $2 billion from Treasury's take.

If we are to experience a recession of the 1938 type, when the industrial production index fell to 185, the problem will become graver, almost doubly so for the reason that Federal revenues, with present rates as the base, will decline around $26.3 billion. The collections from corporations would drop by nearly $12 billion, from individuals by $12.5 billion,

while excises and other receipts would drop approximately $2 billion.

Thus we see the Administration and Congress faced up with the necessity of some unpleasant and difficult tax-writing duties. To be devised is a tax program which will look toward a balanced budget within the next two—not over three—years, and at the same time be as free from pain as possible, or at least give the voters the illusion that the tax bill has been cut. That is a "large order" to say the least. Meanwhile, stalking the tax writers will be the shade of "Old Man Recession" with consequent near-disastrous reduction of Federal revenue. Frankly, insurance against a recession is not known at this moment, but the Administration is readying a tax program which will give partial protection and at the same time bring outgo and income closer together. As the tax program is readied, the Administration can only hope that the automatic death of the excess profits tax and the January 1 reduction in individual levies will give industry a sort of "shot in the arm" that will serve to avert a recession of major proportions.

Effects of Recession on Corporate Profits and Budget

(Estimated on Basis of 1949-Type or 1938-Type of Business Decline)

	(In Billions) 1952	Estimated 1953	After Estimated 1949-Type Decline	After Estimated 1938-Type Decline
Corporate Profits (After Federal Profits Taxes)	$19.4	$19.5	$17.0	$11.3
Government Receipts (For fiscal year following)	65.2	68.5*	54.5**	42.2**
Government Expenditures (For fiscal yr. following)	74.6	74.1*	72.0[2]	72.0[2]
Estimated Deficit (Budget) (For fiscal yr. following)	9.4	5.6	17.5[3]	29.8
Estimated Deficit (Cash) (For fiscal year following)	5.3	2.8	16.0[3]	29.8

*—Official estimated for fiscal year June 30, 1954. Assumes continuation of Excess Profits Tax to December 31, 1953, and 10% reduction in personal income tax of Jan. 1, 1954.

**—Official estimate of June 30, 1954 receipts adjusted as follows: (Assumes end of Excess Profits Tax 12/31/53)

		1938-Type	1949-Type
Decline in Corporate Tax Receipts	on basis	$ 6.0 Billion	$11.8 Billion
Decline in Individual Income Tax Receipts	of present	5.0 Billion	11.0 Billion
Decline in Other Receipts	rates	1.0 Billion	2.0 Billion
To adjust for full fiscal year 10% reduction in Individual Income Tax and Miscellaneous		2.0 Billion	1.5 Billion
Estimated decline in revenues		$14.0 Billion	$26.3 Billion

[2]—Official Estimate of 6/30/54.

[3]—In fiscal years after June 30, 1955, loss of Mills Plan windfall will increase deficit by over $2 billion at current levels of corporate earnings, by about $1.7 billion in a 1949-Type Decline and $1.1 billion in a 1938-Type Decline.

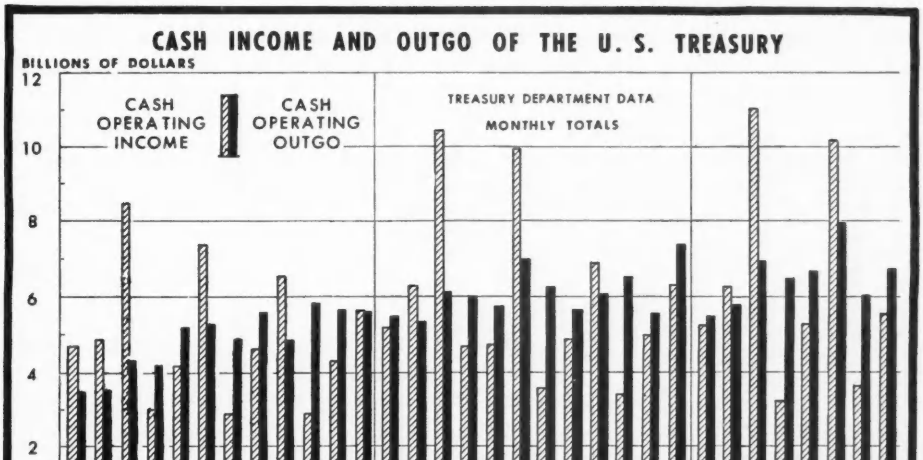
(Prepared by Bank of New York)

Now, we look at what to expect—what the Administration is almost certainly planning in the field of taxation, what new sources of revenue may be available, what sources of revenue are to be retained—although now slated to die—and the overall effect on the corporation and the individual.

First, there can be no doubt that the President, supported by his principal fiscal aide, Secretary of the Treasury Humphrey, will make an all-out fight to head off those tax reductions scheduled for next April 1. These include the lowering of taxes on corporate incomes from 52 to 47 percent and reductions of excises, imposed after the beginning of the Korean "police action" on cigarettes, gasoline, automobiles, sporting goods and alcoholic beverages. Lowering of these levies would trim the Federal revenue by around $2.2 billion annually. The Jan. 1 reduction on personal income taxes is going to cost another $5 billion a year but, as previously stated, there will be no effort to head this off, nor will there be any attempt to revive the excess profits tax.

What will the Administration ask Congress to substitute for this lost revenue? And there must be a substitute if we are to avoid the budget deficits of the past two decades, maintain the national credit and have a really "hard money" once more. President Eisenhower has "slammed the door" on a national retail sales (or gross receipts) tax, but he has left it open for a sales tax at the manufacturer's level. The first type of levy would never clear Congress, while the latter will meet strong Congressional opposition. But, extension of the excess profits tax met stiff Capitol Hill opposition only to be approved. Further, it is a levy that is capable of some concealment—this makes it politically more acceptable to a Congress which faces the electorate next year.

Therefore it would seem that the excise at the manufacturer's level may prove the line of least resistance. It is relatively easy to collect, involves no complicated accounting procedures as is now the case with those retail excises—jewelry, cosmetics, furs and other luxury items—and as previously stated, it is subject to a certain amount of concealment. The



National Association of Manufacturers, long an advocate of this type of levy (food and food products excepted) estimates that such a tax would produce $1.1 billion in Federal revenue for each percentage point levied, or about $5.5 billion if the tax were put at 5 per cent of manufactured price. This is about the sum the Administration will have to raise in new revenue during the next fiscal year, after scheduled reduction, and assuming budget cuts can be effected.

Objection to this type of levy is that it will be pyramided to disproportionate levels. On anlysis it is found that the tax, after passing through jobber, wholealer and retail mark-ups will increase some retail prices by around eight—not over nine—percent, if that much. Jobber, wholesaler and retailer cannot, because of accounting costs, separate tax and cost of goods, they must treat tax as a part of cost; thus the manufacturer's tax will pyramid. But, in the final analysis, the men between the manufacturer and the ultimate consumer are entitled to a profit on the tax —their cash working capital would be tied up in the levy just as much as in inventories. There will be chiselers who try to hike prices unreasonably and blame the "new manufacturer's tax," but competition will take care of that situation within a reasonable length of time. Since the tax presumably would not be levied on foods and food products, the ultimate consumer would gain something in that his individual income tax had been reduced by a sum greater than the increased costs due to the manufacturer's tax.

Other Tax Possibilities

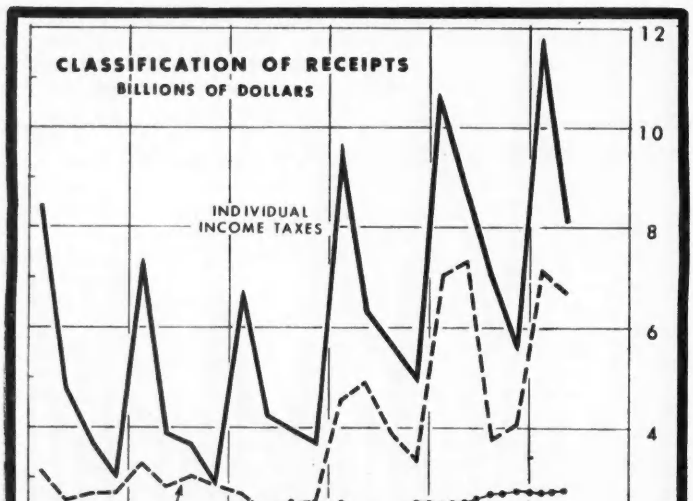
Projecting the upcoming tax picture, the Government is slated to lose close to $8 billion of revenue in the next calendar year as the result of the January 1 reduction in taxes on personal incomes, the end of EPT and scheduled April 1 reductions in the corporate income tax rate and certain excises; ergo, a $5.5 billion tax at the manufacturer's level falls $2.5 billion short as a substitute. This is why the Administration, of necessity, will ask for extension of the high excises and the present corporate income rate of 52 percent. This will take great political courage of the same order as was needed to ask a six-month extension of the excess profits tax.

In sacrificing $8 billion of revenue for a $5.5 billion substitute, the Administration is doubtless looking for a resultant stimulation of business that may be of help in averting, or partially diminishing, any recessional trend which could impair Federal revenues.

Supporting this thesis, the writer selected a half-dozen American corporations in basic industrial fields whose annual operations exceed $5 billion. Projecting their estimated 1953 profits before Federal taxes, he found them to total $523.2 million. End of the excess profits tax will save the same group $85.8 million annually, while a reduction of the corporate income tax rate would save another $25.6 million—a total tax saving of $111.4 million. Inasmuch as the Administration is certain to make a drive for an extension of the present corporate income tax rate, the group may save only the $85.8 million as represented by the excess profits tax. Some of this saving could go out in the form of increased dividends to stockholders—subject to income tax—while some of it will go into improved and expanded production facilities, new equipment, needed repairs, etc.

For the individual wage earner the picture is slightly different. The manufacturer's excise will add something to his cost of living, while there is to be an advance in his social security tax rate beginning January 1. Yet, with personal revenue take reduced some 10 percent, there should be a net, though, modest gain in the buying power of the individual.

With respect to continuation of the excise rates, now scheduled to come down next April 1, the Government, in asking their continuance will have to first give serious study to their present deterrent effects on business. Perhaps the scheduled reductions would prove a stimulus that, in the long run, would produce equal or greater revenue for the Government. Several of the excises can be shown to be very definite drags on business, while two have passed the point of diminishing returns.



From fiscal 1951 to fiscal 1952, Federal excise collections on distilled spirits dropped slightly more than $157.3 million. It was on November 1, 1951 (in the fiscal year 1952) that this tax was hiked from $9.00 to $10.50 per proof gallon. From fiscal 1952 to fiscal 1953, revenue from the 20 per cent tax on theatre admissions declined $117 million. Exhibitors partially blame the tax, conceding that television competition accounts for no small portion of the decline. Meanwhile, excise levies on jewelry, furs, cosmetics and other so-called luxury items are curbing retail volumes in these lines. Also, the communications services can substantiate declines—or slower-than-normal increases—because of excises. These declines and retardations reduce taxable income of the affected operations, producing a sort of reverse pyramid for Treasury experts to consider when they think of keeping excises at present levels.

The Prospective Deficit

Assuming that efforts succeed to prevent the April 1 (*Please turn to page* 165)

10 Stock Groups

With Demonstrated Stability

By JAMES CURTIS

Stocks representing industries which deal primarily in the necessities of life gave a better market performance during the late summer decline than those of the great cyclical industries. This is normal action during such a period as investors are inclined to show preference for the more stable issues when the market is unsettled, whereas the formerly more volatile issues tend to lose their glamor.

Investors seeking out the more stable issues for investment are moved by two considerations: added protection against undue market risk and (2) insurance against dividend risks, especially in industries which may be especially subject to reaction in the future. This is a relative advantage, of course, as no stock group can be said to possess total immunity.

Except under conditions of general depression, the "necessity" industries possess an unusual degree of stability owing to the fundamental daily demand for their products from practically the entire population. As such, fluctuations in demand are likely to be minor. Cyclical industries are influenced by more dynamic considerations and may be affected by very sharp fluctuations in demand. Under these circumstances, stocks of the "necessity" industries are likely to be more stable in earnings and market action than those in the cyclical groups.

Familiar examples of the more stable industries are food processing and dairy; biscuit manufacturing, variety chains, tobacco, gas and electricity. The meat-packing industry is an exception though it might have been expected that since it is so closely allied to daily consumer needs, it would be one of the most stable. Unfortunately, this industry is vulnerable to changes in the price of its raw material—cattle, sheep and hogs—and as such its earnings are extremely variable. Textiles are another instance of an industry which serves common needs but which certainly does not rank as stable, and whose profits are extremely variable.

However, there are a number of industries which qualify as being among the most stable and ten of these are listed in the accompanying table. The test is in the earnings record, especially since the end of World War II. In each case, the ten industries have shown a remarkably steady record, although individual companies have varied moderately from year-to-year. It must be borne in mind, too, that most of these industries were handicapped during practicaly the entire Korean war period owing to federal controls of one sort or another. With controls now lifted, these industries should show a better margin of profit on the large volume of business they are expected to maintain regardless of general business conditions.

Several examples may suffice to illustrate the basic steadiness of earnings for representative companies in these groups. (Two of these are listed in each of the ten.) Thus, Borden earned $4.69 a share in 1950; $4.20 in 1951, $4.11 in 1952, and an estimated $4.50 in 1953. Kroger earned $3.56 a share in 1950, dipped to $2.48 in 1951, owing to price controls, recovered to $3.23 a share in 1952, and will probably earn in the neighborhood of $3.50 a share this year. Woolworth has had a fairly steady record, with $3.83 a share earned in 1950, $3.22 a share in 1951, $3.25 in 1952 and an estimated $3.45 a share in 1953.

Not all of the companies listed in the accompanying table have had equally steady records in recent years but the fact nevertheless remains that their dividends have never been in doubt and in most cases have been earned by satisfactory margins even when earnings dipped temporarily.

In the following, we present a brief account of the position and prospects for two representative com-

panies in each of the ten groups. These stocks have been selected on the basis of earnings performance and dividend outlook. They are especially suitable for investors who are seeking issues with a relatively good degree of market stability.

Banks

Stocks of New York City banks have long been highly favored as defensive issues because of their relatively stable earnings and ability to maintain dividends. Two good examples are the Corn Exchange Bank Trust Co., with dividends paid in every year since 1854, and currently at the rate of $3 a share annually; and Manufacturers Trust with an unbroken dividend record dating from 1910, now paying $2.80 a share in annual dividends. Earnings of both institutions have been on an uptrend in the last three years. Corn Exchange earned $4.68 a share in 1951, $4.71 a share in 1952, and is expected to show better than $5 a share for 1953. Manufacturers Trust, earned $4.96 a share in 1951, increased net to $5.31 a share last year, and is expected to report $5.50 for this year. The outlook, in the more favorable climate that has developed as a result of a reduction in reserve requirements, a higher volume of busines and increased money rates, is for a continuation of this improvement in net earnings.

Both stocks since the beginning of the year sold at a low around 58, with Corn Exchange registering a high to date at 68⅛, and Manufacturers Trust a high around 66¼. In the general market decline the two issues lost moderate ground, and have partially recovered to where Corn Exchange is currently selling around 62 yielding 4.8%, while Manufacturers Trust shares are presently selling around 64, to yield approximately 4.4%. These are standard yields for bank shares today.

Biscuit Manufacturers

Since the end of 1950, earnings of the biscuit manufacturers have been extremely stable: National Biscuits earnings ranging from $2.30 a share in 1951 to an estimated $2.55 a share this year, and Sunshine Biscuits earnings ranging from $6.06 a share in 1951 to an estimated $5.75 a share this year. Dividends for National Biscuit were mantained at $2 a share durng this period and those of Sunshine Biscuit have been fixed at $4 a share. Based on extremely strong financal positions, both companies have been able to pay out a large share of earnings to shareholders and can continue to do so.

The characteristically stable position of both companies with respect to earnings and dividends has been reflected in the steadiness of both stocks during the recent general market declines. National Biscuit has sold, since the beginning of the year, in only a four-point price range, from 38 to 34, with the most recent price around 36. At this price, the yield is about 5.6%. Sunshine Biscuit, selling in a higher price range, has also held quite steady with extremes of high and low of from 71¾ to 66, with a recent price of close to 67. At this price, the yield is about 6%.

Based on demonstrated earning power and relative solidity of dividends, both stocks commend themselves on an income basis.

Chewing Gum Manufacturers

Shares of the leading companies in this field have long been recognized for their high quality and defensive character. Their products, retailing in one and five cent packages, distributed throughout the world, are always within reach of the masses. Inflationary forces that in 1950 arrested the earnings uptrend appear to be easing their pressure, and it is estimated that net this year for American Chicle will increase to $3.45 a share, as compared to $2.89 in 1951, and $3.16 a share last year. Estimates place Wm. J. Wrigley Co.'s 1953 net at $5.00 a share, as against $4.76 in 1951, and $4.41 a share in 1952. Both companies have strong finances and have pursude a policy of paying out in dividends the major portion of yearly earnings. American Chicle's current rate is $2.00 annually, plus 50 cents extra. Wrigley has been paying monthly dividends of 25 cents each, plus a mid-year and a year-end extra of 50 cents each.

The stability of earnings and long established dividend policies of the two companies are reflected in the market action of their shares. Since the beginning of 1953, American Chicle's price range has been between 50⅛ and 44¾. Now selling midway of these two levels at 47, the stock yields 5.3%. Wrigley's price range this year has been between 76 and 71¼. Its current price is 74½, yielding 5.3%.

Dairy Products Companies

Stability of earnings and dividend payments have made shares of the leading companies in this field good long-term investment issues, and emphasized their dependability as income producers. Borden's earnings in the three years to the end of 1952, have ranged between $4.11 and $4.69 a share. Net income for 1953 is estimated at $4.50, again providing a good margin over the 60 cents a share quarterly dividend and the 40 cent extra disbursement Borden has paid at year-end in each of the last three years and should repeat in 1953. National Dairy's earnings have been in a gradual uptrend since 1950, increasing from $4.07 a share in that year to $4.23 a share in 1952, and probably expanding to $4.50 a share for 1953. Dividends on National Dairy stock have also been increasing in each of these years, expanding from $2.20 a share in 1950, to $3.00 a share in 1952, with a similar rate prevailing so far in 1953.

Both stocks have reflected investor evaluation of their income dependability by their comparative market firmness during recent general weakness in the rest of the list. Since the first of the year, Borden's entire range between its high of 60 and its low of 52½ has been 7½ points. The stock is now selling around 59½, to yield approximately 4.7%. National Dairy's spread between a high of 63⅜, and a low of 56⅝ this year has been 6¾ points. Its present price is 60 where it yields 5%.

Food Store Chains

Food, the first requisite of life, provides the answer to the steady growth of the grocery store chains and the reason for the value put upon shares of these companies as income producers and dividend payers. Outstanding in the group is The Kroger Co., with a 51-year dividend record, currently paying annual dividends of $1.90 a share, and whose earnings since 1950 have ranged from $3.30 to $3.56 a share, with 1953 estimated net at $3.50 a share. Another is Safeway Stores, paying dividends since 1927, and maintaining a $2.40 annual rate for the last four years. Safeway's net in 1952 dipped to $2.01 a share from $4.84 a share in 1950, the time in between represent-

ing a period of transition in which older retail units were being replaced with streamlined stores and supermarkets. On the basis of net earnings of $2.89 a share in the first 36 weeks of this year, Safeway should earn between $3.75 and $4 a share this year.

Packaged Food Companies

Companies with established and diversified brand names in the packaged food field have long demonstrated stability of earnings and dividend payments under varying general business conditions. H. J. Heinz & Co., has an unbroken dividend record extending over 43 years, with the current rate, in effect since 1952, being maintained at $1.80 a share annually, against net earnings of $3.09 a share in the fiscal year to April 30, 1953, and $3.25 a share in the year previous. In the 5 years from 1949, Heinz's range of earnings has been from a low of $2.85 to a high of $5.03 a shar. Standard Brands' earnings in the same period have ranged from $2.34 to $2.96 a share, with 1953 calendar year net estimated at $3.00 a share. Dividends at an annual rate of $1.70 a share have been maintained since 1950, continuing an unbroken dividend record since 1929. In view of increased earnings this rate might be increased.

Both Heinz and Standard Brands reflect marketwise earnings and dividend stability, the two issues showing resistance to the general downtrend that has developed in the market from time to time since the beginning of the year. Heinz common has held within a range of 3½ points, fluctuating between a high of 34½ and a low of 31, and is now selling around 31½, to yield 5.7%. Standard Brands' range has been within 4⅜ points, or between 29⅜ and 25. At the present time, the stock, selling around 27, is about midway of its 1953 high and low, and yields 6.3%.

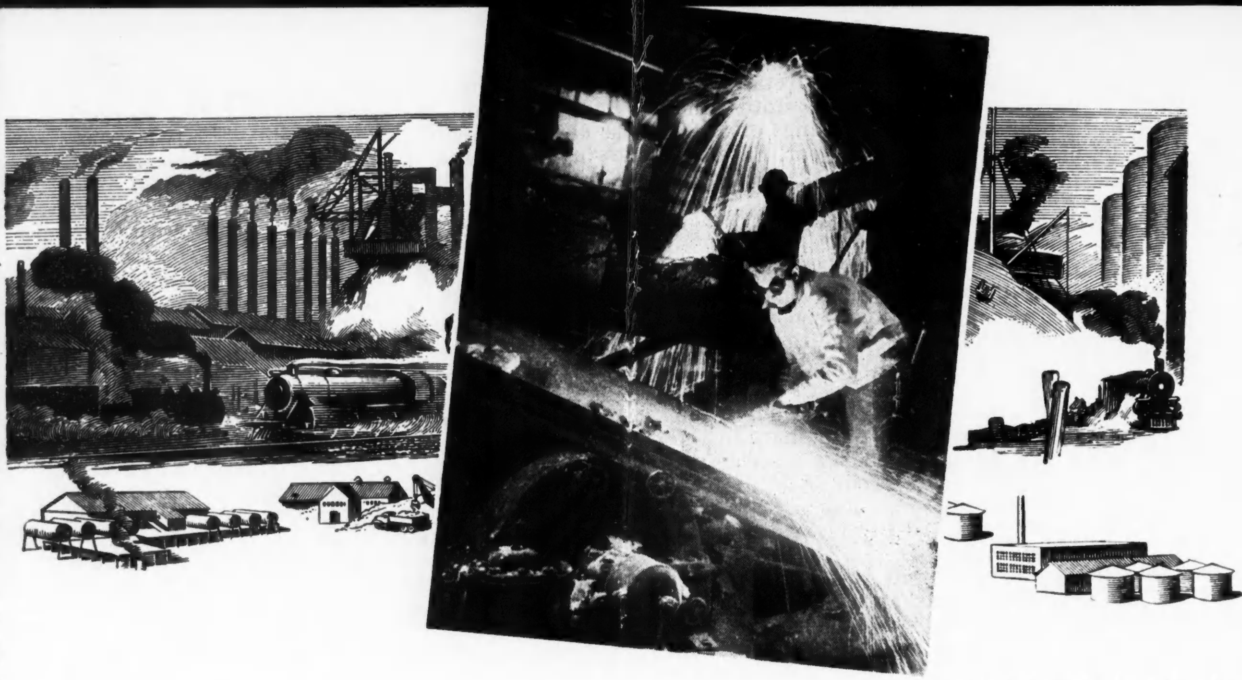
Small Loan Companies

Earnings of the small loan companies which also engage in the business of financing consumer purchases, have been consistently expanding during the last 10 years. Beneficial Loan, one of the leaders in the field, net has ranged from $2.77 a share for the common stock in 1949, to $3.81 in 1951, followed by $3.63 a share last year, and 1953 net will probably be at a record high of $3.90 a share. Beneficial, currently paying dividends (*Please turn to page* 164)

20 Representative Stocks In 10 Stable Groups

	1952			1953					
	Net Per Share	Div. Per Share	Net Profit Margin	Estimated Net Per Share	Indicated Div.	% of Liquid Assets to Current Assets	Price Range 1953*	Recent Price	Div. Yield
BANKS:									
Corn Exchange Bank	$4.71	$3.00	21.7%[3]	$5.00	$3.00	......	68⅛-58	61	5.0%
Manufacturers Trust Co.	5.31	2.60	20.8[3]	5.50	2.80	......	66¾-58½	63	4.4
BISCUIT MANUFACTURERS:									
National Biscuit	2.56	2.00	5.1	2.55	2.00	42.8%	38 -34	35	5.7
Sunshine Biscuits	5.71	4.00	5.1	5.75	4.00	16.4	71¾-66	68	5.9
CONFECTIONARY:									
American Chicle	3.16	2.50	8.5	3.45	2.50	23.4	50⅛-44¾	47	5.3
Wrigley (Wm.) Jr., Co.	4.41	4.00	11.4	5.00	4.00	54.7	76 -71¼	74	5.4
DAIRY PRODUCTS:									
Borden	4.11	2.80	2.3	4.50	2.80	48.1	59⅝-52½	59	4.8
National Dairy Products	4.23	3.00	2.4	4.50	3.00	19.2	63⅜-56⅝	60	5.0
FOOD STORE CHAINS:									
Kroger Co.	3.23	1.90	1.1	3.50	2.00	32.2	42⅝-37½	43	4.6
Safeway Stores	2.00	2.40	.4	3.75	2.40	26.2	38⅞-32⅜	38	6.3
PACKAGED FOODS:									
Heinz (H. J.) Co.	3.25[1]	1.80	2.5[1]	3.09[1]	1.80	5.6	34½-31	31	5.8
Standard Brands	2.72	1.70	2.4	3.00	1.70	16.6	29⅜-25	27	6.2
SMALL LOAN COMPANIES:									
Beneficial Loan Corp.	3.63	2.10[2]	18.8	3.90	2.40	......	38 -33⅛	35	6.8
Household Finance Corp.	4.16	2.50	18.4	4.85	2.40[2]	......	57½-42	44	5.4
TOBACCOS:									
American Tobacco	4.79	4.00	3.2	6.00	4.00	3.7	77⅝-65	75	5.3
Liggett & Myers Tobacco	5.11	5.00	7.0	6.00	5.00	3.5	82 -74	78	6.4
UTILITIES:									
Consolidated Gas of Balt.	1.79	1.40	11.1	2.00	1.40	27.5	28 -23¾	25	5.6
Southern California Edison	3.33	2.00	19.0	2.65	2.00	27.3	39⅜-33½	36	5.5
VARIETY CHAINS:									
Kress (S. H.) & Co.	3.89	3.00	5.1	......	3.00	44.8	57¼-48	51	5.9
Woolworth (F. W.) Co.	3.25	2.50	4.4	3.45	2.50	27.1	48 -42⅞	43	5.8

*—To October 13.
1—Fiscal years ended April 30.
2—Plus stock.
3—Gross earnings to net operating earnings.



What 1953 Third Quarter Earnings Reports Reveal

PART I By J. S. WILLIAMS

The trend toward higher earnings which became vigorously manifest during the second quarter 1953 continued into the third quarter, though at a slower tempo. At the end of this period, signs were visible that the boom was levelling off and that some ebbing of earnings was to be expected in the final quarter and into the first quarter of 1954, as well.

Nevertheless, total volume of business and industry remained close to the highest point of the year in September. Some of the important economic indices, such as production, employment and national income, remained well ahead of a year ago. However, it was significant that for the first time in a considerable period, the gross national product no longer increased as indicated by third quarter results, but actually registered a small decline to the annual rate of $371 billion from $372.5 billion in the preceding quarter. The changing trend seemed to be due to a somewhat lower rate for government expenditures, with industry commencing to adjust itself to this phase. It was also noticeable that the rate of inventory accumulation was slowing down.

Employment was registered at 63.5 million in September, with unemployment at 2% of the total civilian labor supply. This represented a slight increase from the figure of 1.9% in August, but is an inconsequential increase in unemployment. Of greater significance is the tendency by manufacturers to cut down on overtime.

The high record of personal spending is still a sustaining factor in the economy, with an increase of $2.5 billion in the third quarter. This touched a new record annual peak of $233 billion and was at an annual rate of about $15.5 billion above a year ago. Contrasting with this, the annual rate of government spending declined by almost $2 billion but about 25% of the decline was compensated for by increased state and local spending.

Expenditures for new plant and equipment registered at the annual rate of over $28 billion by the end of the second quarter—a new record. Little change is expected in the December quarter but it is likely that these expenditures will commence to recede early in 1954. This is already reflected in the decline in the volume of new permits for accelerated amortization allowable under the defense program. While September figures are not available, August figures on new orders indicate what may be the beginning of a considerable change in trend. New orders, on a seasonably adjusted basis, declined $1.6 billion from July and $2.8 billion from June. It is thought that this drop was occasioned by cuts in defense orders.

It is already clear that the basic segment of the economy, on which the trend of earnings in the fourth quarter of this year and the first quarter of next depends, are commencing to undergo adjustment, partly in response to a leveling-off in government expenditures, partly to expectations of a smaller volume of plant and equipment expenditures, and partly to internal changes in the making with respect to some of the major industries, such as automobiles, building and steel.

Considered on a nine-month basis, most industrial companies (rails and utilities are excluded from this analysis) showed sizeable gains over the corresponding period the year previous. The comparison, however, is not entirely accurate as it includes the steel strike period of a year ago last summer when

earnings for many companies fell off sharply. The comparison between the two nine-month periods, therefore, is not as favorable as would appear on surface since allowance must be made for the deficiency in earnings caused by the strike.

A clearer impression of recent trends is gained from comparison of third quarter earnings with those of the quarter directly preceding. On the basis of reports at hand, it would appear that increases and decreases in net profits as between the two quarters were about evenly divided. This result compares with about 70% increases and 30% decreases as between the first and second quarters of the year.

Third Quarter Trends Vary

On an industry basis, general conclusions as to recent trends would not appear warranted as the variations in earnings of individual companies within these groups, was quite marked. The one important exception was the steel industry, in which practically all of the leading companies were able to repeat their substantial earnings of the first and second quarter of this year. This was the result of the exceptionally high operating rate of practically the entire third quarter. It must be noted that even in this instance, actual gains in earnings as between the second and third quarter were few, the industry apparently having already achieved its maximum earning power for the time being.

The trend in sales during the third quarter was quite mixed, slightly more than fifty percent of the companies reporting thus far showing sales even with or slightly below the second quarter, with rest showing moderate gains for the most part. In this respect, results were highly individual and were more or less independent of specific industry trends. Comparison between sales of the third and first quarters of the year would also seem to confirm the fact that sales, on an over-all basis, are no longer mounting as rapidly as they did in the earlier part of the year.

Between 55% and 60% of reporting companies made gains in per share earnings in the third quarter as compared with the second, with a slightly wider profit margin, owing to more stabilized costs. This was especially true of wages and materials costs which, with some important exceptions as to wages, remained relatively stable. At the same time, corporations are bending every effort to increase operating efficiency and to hold costs down as much as possible. Progress in this respect, however, cannot be rapid owing to the rather rigidly high general operating costs, especially labor. This, of course, affects the pre-tax operating margin. High taxes do the rest and tend to restrict net operating margins. Some alleviation is expected through the ending of the excess profits tax at the end of the year but hopes should not be exaggerated since the main beneficiaries are a comparatively limited number. Perhaps the greatest benefit conferred by the ending of EPT is the cushioning effects it will have.

In the following we present a brief analysis of third quarter earnings reports for several representative companies. Pertinent data appears in the table. This will be greatly extended in the next issue when the second part of this general analysis of earnings trends appears. By that time many more earnings reports will be available and more light will be had on prospects for first quarter 1954.

General Portland Cement Co. Net earnings for the third quarter were $1,388,900 compared with $1,217,000 in the second quarter. This amounted to $1.33 a share and $1.17 a share respectively. For the nine months ended September 30, earnings amounted to $3.63 a share compared with $3.69 a share in the corresponding period of 1952.

Sales were compara- (*Please turn to page* 163)

Quarterly Comparison of Sales, Profit Margins and Earnings

	3rd Quarter 1953			2nd Quarter 1953			3rd Quarter 1952		
	Net Sales (Millions)	Net Profit Margin	Net Per Share	Net Sales (Millions)	Net Profit Margin	Net Per Share	Net Sales (Millions)	Net Profit Margin	Net Per Share
Barker Bros	$ 7.1	1.6%	$ .25	$ 6.8	.9%	$ .12	$ 7.3	2.9%	$ .53
Container Corp. of Amer.	48.5	5.5	1.30	47.5	5.2	1.21	45.0	5.9	1.19
Devoe & Raynolds "A"	13.2	4.5	1.08	13.5	4.2	1.03	12.0	4.5	.96
Diamond Alkali	22.0	5.7	.50	21.8	8.6	.77	18.4	5.1	.36
Eagle-Picher Co.	21.1	3.3	.71	22.2	5.2	1.17	20.8	2.6	.55
Ex-Cello-O Corp.	21.9	6.3	1.79	24.6	4.3	1.38	23.6	6.1	2.05
General Bronze	6.6	4.4	.89	6.1	4.8	.90	5.7	5.3	1.03
General Portland Cement	7.8	17.7	1.33	7.9	15.4	1.17	7.5	17.0	1.23
Libby-Owens-Ford Glass	....	......	.96	....	......	.91	37.1	9.5	.69
Masonite Corp.	11.8	10.7	.94	12.2	7.9	.71	9.2	8.0	.55
Mathieson Chemical	60.3	8.5	.91	63.1	7.2	.80	54.5	7.3	.70
Monarch Machine Tool	8.2	6.8	1.35	9.4	6.0	1.35	6.5	6.1	.96
Monsanto Chemical	82.7	7.4	1.15	89.7	8.5	1.43	62.9	7.9	.92
Mullins Mfg.	19.9	4.2	.62	16.5	4.1	.50	12.5	8.1	.75
National Cash Register	65.7	3.9	1.30	66.4	4.9	1.66	55.8	3.8	1.08
New York Air Brake	10.1	5.3	.75	10.6	5.3	.78	8.3	5.1	.58
Republic Steel	292.6	4.8	2.31	309.2	4.8	2.46	190.6	2.7	.80
Rohm & Haas	28.2	5.1	1.54	32.1	5.3	1.86	25.3	4.9	1.32
Shamrock Oil & Gas	8.9	14.7	.89	8.0	16.8	.91	8.2	14.2	.79
Youngstown Sheet & Tube	142.2	5.6	2.41	141.0	5.6	2.38	92.1	2.7	.76

NEW LABOR DEPARTMENT HEAD

By "VERITAS"

MOVEMENT of the sun appears often to control the excursions of members of congress more than 100 of whom are currently enjoyng the salubrious weather of warmer climes as chilly weather moves in on most of the United States, and frost literally is on the pumpkin. It is interesting to note the ports of call laid out for almost 30 congressional investigating committees. Concentration is on the countries most people see only via the moving pictures; far away places are being visited at the taxpayers' expense "to gain on-the-spot" information on nations involved in impending legislation. There is no mission to Alaska to study the live subject of paper production in national forests, no inspection of Greenland and Iceland air bases.

WASHINGTON SEES

An inventory of political assets and liabilities must be taken by the republican party to determine how it stands as the first year of the Eisenhower Administration nears its end.

The principal asset appears to be the President's personal popularity, which shows no more than the wear and tear that results from the disappointments of job seekers and special interest pleaders who were not satisfied. How long that can stand out against the liabilities of lost labor and farm support—temporary loss, perhaps—is a question that should concern the men on top levels of the Grand Old Party.

It is ostrich-like performance to say that the democrats gained in Connecticut only because Republican Governor John Lodge was blamed for a sales tax boost. His party chairman had made the issue clear: a republican vote is a vote for Ike and John (Lodge). Hindsight being more acute, politically, than foresight it is now clear that raising that issue was a mistake.

Election of a democrat to fill a Wisconsin vacancy in a district that had never picked a candidate of that party in its entire past history might be softened by pointing out that local, not national, issues always are involved in such special elections—if that were true. It wasn't true in Wisconsin; the dissatisfaction of farmers who voted overwhelmingly for Eisenhower one year ago turned the trick, elected the democrat. Both candidates said they would vote as the deceased republican they sought to succeed in congress had voted. On that point each canceled the other out. Remaining issue: the Administration's lack of a farm program.

APPOINTMENT of James P. Mitchell as Secretary of Labor, vice resigned Martin P. Durkin, hasn't satisfied union leaders. It seems to boil down to an attitude that a labor man having filled the job up until recently, another of similar background must be appointed. Fact is that in the 40 years of Labor Department existence, only four men with union background have held the post—three of them republican appointees. Organized labor views the portfolio with possessive eyes, yet refused to exercise the responsibilities of possession. Witness the Durkin incident. Every President recently has weighed appointment of a labor leader, ran into the CIO vs. AFL vs. United Mine Workers vs. Railroad Brotherhood wrangle; no democrat since Wilson picked one.

SLOWLY receding prices for most foods hasn't convinced congress that there cannot be still further reductions. Early in the new session, the country may look for announcement that a committee—probably a senate group headed by Vermont's republican Senator George D. Aiken—to probe the entire field of pricing on consumer edibles. The Department of Agriculture in an apparent effort to soften the blow is investigating the spread between farm and table meat prices. The packers probably will wind up again as the "goats," in spite of the fact that they have many times demonstrated they lose money on meat sales. By-products always pay the freight.

DOOMED even before congress returns to Washington is the bill to set up a compulsory fair employment practices act, forbidding discrimination based on race, color, or creed, in filling jobs. There will be much oratory, breast-beating, but no action.

As We Go To Press

Unless Ezra Taft Benson, Secretary of Agriculture, comes up with a meaningful farm program within the next two months, congress will take the reins and do the driving. The "nation's breadbasket" holds grief for the Administration right now; the agricultural states who liked Ike and said so with their votes just one year ago, don't uniformly dislike his Administration but the ardor has cooled and it doesn't require a slide rule to compute how much of this feeling it will take to place more of those areas in political jeopardy.

Benson's problems are multiplied by the fact that about 90 per cent of the senate and house membership now roams the home states and congressional districts. The lawmakers are picking up the complaints first hand, seeing for themselves that the crop surplus is skyrocketing, new markets aren't being found, and the result could be plummeting in prices, not immediately but eventually if a switch is not thrown somewhere along the line.

The republicans want to keep far away from a Brannan Plan (Charles R. Brannan, the last democratic secretary of agriculture, had a notion that farmers could be paid more for their products and consumers could get the same products for less; he left out one important factor: who makes up the difference?) Both objectives still are the fixed goals, and new markets seem to hold the only key. Possibilities are being weighed. The export trade seems most attractive from the standpoint of demonstrated need for products of the farm. But there is the dollar question to be considered.

Rep. Clifford Hope, Kansas republican who heads the house committee on agriculture is considered to be top authority on farm legislation. He comes from a state generally regarded as safely republican, but which has not hesitated to go democratic, locally, statewise, and nationally, on a single issue: the "farm problem." Hope rose to the position of ranking GOP member of his committee under democratic administrations, drafted several farm programs, but they were snowed under. The democrats didn't want a Hope Bill to be the instrument by which the farmer might be made happy, economically sound. He will act early in the new session if Benson hasn't worked out the answer.

Sign of the times: The War Claims Commission, due by the terms of the law creating it to go out of existence June 30, 1955, is almost certain to be extended by legislative process. Existence of a War Department is accepted because it has been symbolized as a protective weapon, one which staves off actual warfare by discouraging would-be aggressors. But "war claims" can mean nothing but aftermath of a destructive shooting war. Its continued existence during a period when there is no declared war may sound like anticipation; actually such an agency can do almost nothing while conflict rages, must await peace. The legislators probably had figured correctly that the work involved in Word War 2 could be completed by mid-1955. But the Korean outbreak created unlooked-for filings, throwing the calendar off completely.

The world's largest printing plant -- U.S. Government Printing office -- isn't looking for any more business. In fact its head, Raymond Blattenberg (an Eisenhower appointee) is opposed to expanding plant capacity or personnel, believes there are many instances where private enterprise can, and should, be doing work on a contract basis. He cites specialty jobs, and "overload" taxing the existing GPO facilities. Blattenberg proposes to do something about a problem which has made government work in many lines less attractive than it could be: "There are many laws and more regulations and rules which must be followed. My opinion has always been that the procedure could be greatly simplified. I am determined to do something about it. I can sympathize with those who must go through so many specifications and read over so many forms to try to find out what the job is all about."

Government employees who have found that the Civil Service protection they thought they had does not actually protect when an economy axe digs deeply are now being urged by labor leaders to join either of the two national federal workers unions to which they are eligible. A bit of propaganda is permitted to intrude upon the invitation: the Washington "bosses" who are now pushing government workers around, they are told, are the ones who used to do the same thing in private industry before Ike tapped them. What protection the unions offer is not clear. Federal law prohibits strikes against the government.

The Joint Congressional Committee on the Economic Report has made its quarterly contribution to the science of business forecasting and it seems to add up to a prognostication that business will remain about the same, get better, or get worse -- if either of the latter two alternatives happens, the change won't be very pronounced.

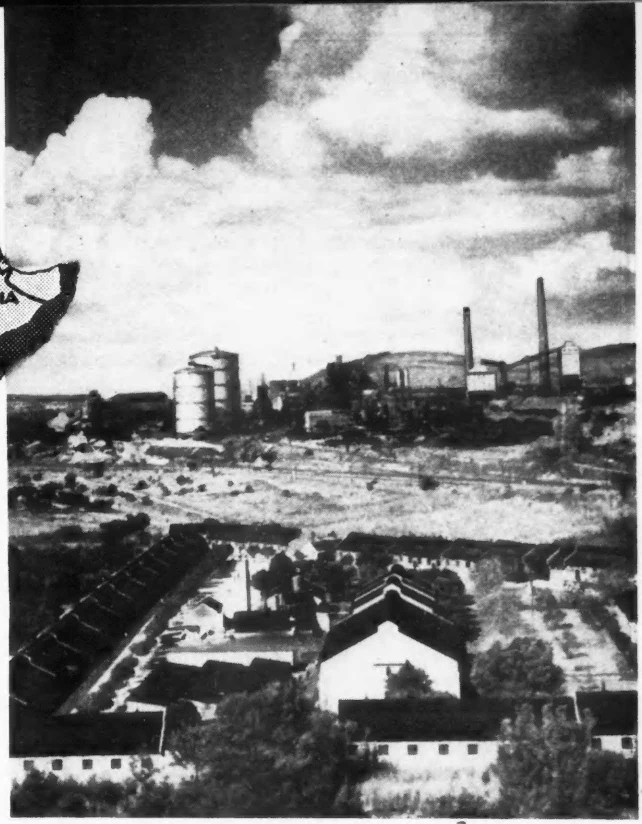
With commendable frankness, the report declares the "seemingly dull and unexciting conclusion" that "economically the possibilities for the next two or three years are likely to be either in the direction of stability or slight rises such as have prevailed for the last two years, or, at the worst, something of a rather mild and selective decline." The late 1950 comes into distant view with underlying forces forming "which can provide the basis for sustaining the economy and calling for unprecedented private and public investment." Farm income drop is termed "disquieting" but without elements which support fears of a depression.

There's more than a sociological problem in the school segregation cases which have been accepted for argument by the Supreme Court and which should be ruled on this year. The problem is most acute, if not entirely confined, to the southern states which have always contended that they meet the test of the U.S. Constitution by providing substantially the same classroom facilities for Negro children as they do for whites. Most of the states are complying with a Supreme Court mandate that qualified Negroes must be admitted to state-operated professional colleges if similar accommodations are not held out to them in segregated institutions of advanced learning. North Carolina already has enabling legislation to permit abandonment of schools supported by state or local taxes if the decision bans segregation.

Under such a system of operation it is presumed that the state and cities with vacated schools on their hands would appeal to North Carolina courts to permit sales to the highest bidder. Community groups organized into school districts very naturally would, for one reason or another, be the lowest "responsible" bidders on the schools now operated for white children. To the extent that they can show financial capacity to do so, South Carolina Negro parents could purchase the others, pay the teachers, maintain the buildings, etc. The idea could spread; owners of the white schools would pay less taxes, perhaps -- no Negro children to be educated that way. But there is a big question mark: Would the system withstand Supreme Court attack based on the equality sections of the 14th Amendment? Answer probably is that the amendment restricts states from passing any law impairing equal rights of citizens; here it wouldn't be passage, but repeal.

Recent happenings re-affirm the need for a coordinator on the highest level of the Administration. At Boston, Ike said "no tax is too high" for the safety of strong defense and the inference was drawn that tax cuts are impossible. Treasury Secretary Humphrey rushed a press statement that defense will be maintained but excess profits tax is out on Jan. 1, and individual taxes will be cut 10 per cent approximately, as promised. Evidently those taxes are too high, or too much a burden.

Chief Justice Warren may find it necessary to disqualify himself from hearing and aiding in decision of one of the most important cases pending before the high court. It is the latest chapter in the tidelands oil litigation. The State of Alabama is challenging the law giving tidelands oil and other rights to Texas, Louisiana, Florida, and California. Justice Warren was California's governor and took an active part in pressing his state's claims to the underwater oil reserves.



Why Belgium Succeeded

—And French-British Colonial Policies Failed

By V. L. HOROTH

While suave Mr. Malenkov has been putting on a show of conciliation and good behaviour the brain-trusters of the Kremlin have been as relentless as ever in their efforts to undermine the unity of the free world by exploiting the racial, political, social, and economic differences of its many peoples. Stymied in Western Europe, the communists have turned their attention to the politically inexperienced peoples outside Europe, posing as the protectors of the exploited, riding the wave of nationalism, and, in general, using to their advantage the intense desire of these peoples for social and economic betterment.

Until recently the Kremlin shied away from Africa—probably because of ignorance of the situation. But from indications in the communist press, the cold war is to be extended to Africa, the last frontier of the free world. Africa presents a challenge to both democracy and communism: here is still a largely primitive world, waiting to be indoctrinated and led toward self-government and economic independence. Who will succeed in winning the confidence of these politically inexperienced peoples? There is no way of telling. The Western democracies have had the opportunity but considering the short-sightedness with which some situations have been handled, the communists have a good chance, particularly in view of their propaganda and promises. At any rate, the winner will fall heir to a veritable storehouse of natural resources, including strategic materials vital to atomic power, jet propulsion, and other scientific developments of the day.

One reason for Africa's problems breaking into the news is the speeding up of the economic transformation of the once "dark Continent" as a result of the cold war and world rearmament. The surveyor's and the geologist's instruments have by this time penetrated into the heart of the Congo forests as well as into the mysterious mountains of the Sahara. New railways and highways are opening up the interior faster than ever before. The British are damming the upper Nile and planning south-to-north highways and railroads, while the Belgians are principally interested in quick and cheap transport of minerals and ores from the fabulously rich Katanga region of the Belgian Congo. Both British and French are discussing ways of utilizing the waters of the great Niger River, the Volta River, and other waters, partly to provide the native with land for his crops and partly to produce cotton and vegetable oils so as to become independent of dollar products.

Thanks to modern hygiene, rising living standards, and the end to tribal wars, Africa's population has reached about 200,000,000 and is growing at the rate of some 5 to 6 million a year—a degree of growth

Africa's Mineral Production in 1951

(in 000 tons)

	South Africa	French North Africa	Other French Africa	Belg. Congo	Rhodesias	British West Africa	Other	Total
Antimony	......	3	......	......	16	......	......	19
Beauxite	......	....	......	......	......	131	......	131
Chrome	247	....	......	......	144	5	......	398
Cobalt	......	1	......	6	1	......	......	8
Copper	34	....	......	192	314	......	......	551
Iron ore	856	1,988	......	......	25	695	574	4,385
Lead	41	92	3	......	15	......	......	150
Maguesite	19	....	......	......	15	......	......	34
Manganese	312	151	......	35	......	425	23	948
Tin	1	....	......	14	......	9	......	24
Zinc	15	32	......	89	23	......	......	159
Asbestos	129	1	......	......	71	......	......	201
Phosphate	......	7,110	......	......	......	......	......	7,110
(value in dollars)								
Gold	358	....	3	11	15	24	......	411
Silver	......	....	......	......	......	......	......	....

Export Value in 1950 of Selected Native Crops

(in millions of U.S. dollars)

	Gold Coast	Nigeria	Uganda	French West Africa	French Equat. Africa
Cocoa	153	53	......	27	......
Coffee	......	......	23	41	3
Cotton	......	8	47	......	16
Peanuts & Oil	......	43	......	63	2
Palmoil	......	81	......	16	......
Hides & Skins	......	18	......	......	......
Total	153	203	70	147	21
Per capita (in dollars)	36	8	14	9	5

Source: U.N. World Eco. Situation Aspects of Eco. Development of Africa

that may create more and more pressing problems in the future. As will be seen, some of the political problems, such as the Mau Mau movement in Kenya, have a great deal to do with the pressure on land. How important the struggle for land is may be illustrated by a serious proposal that the mosquito be engraved into the national flag of Nigeria. "The mosquito has saved the land of our fathers," say the Nigerians. "Otherwise our country would be a vast plantation and we living in crowded reserves like our brethren in South Africa."

It is becoming increasingly obvious that the biggest problem in Africa is not lack of capital, administrative talent or technical skills—but human relations. If Africa is not to be forfeited to the communists, the free world must produce a formula that will enable the black and white races not only to live in harmony but to cooperate in making the African Continent a better place to live. No one has found such a formula as yet, though the Belgians in the Congo have in recent decades probably come the nearest to it.

Congo Stresses Material Well-Being

What has made the Belgian success in limiting political aspirations of the native noteworthy is the fact the Congo has undergone a transformation more rapid than has taken place in recent years in any other African country, Morocco excepted. Tremendous economic wealth spurred this development. Near Jadotville in the Katanga region is the world's largest uranium and radium mine. Here is iron, plentiful coal, and the ores producing zinc, lead, tin, manganese, cobalt, columbium, tungsten, and half a dozen other ferro-alloys. The Belgian Congo is also the world's largest producer of industrial diamonds, but the Katanga area is perhaps most famous for its copper deposits. There is a known or inferred reserve of some 60 million tons of copper. The Union Miniere, which controls the deposits, is the world's second largest producer of the metal.

Why has the Belgian Administration of the Belgian Congo been so successful? The main reason is perhaps this: the colony is being run by efficent, trained colonial administrators for the primary benefit of the native. In many respects it is a benevolent, enlightened dictatorship. "The aim is to establish a native rather than a European economy," declares Mr. Leo Petillon, the Governor General, who rules over an area almost one-third as large as the United States.

The Belgian policy has been to stress the material well-being of the native and his education, rather than to endow him with political rights which he does not understand. Quoting again from a recent policy declaration of the Governor-General: "The doors to all trades and all professions must be kept open to the natives, and the Government recognizes its obligation to provide the maximum possible amount of training for trades and education for the professions and to establish a broad system of primary education. The Congo natives, who seventy years ago were cannibal-ridden and the most backward of African natives are today among the healthiest and most advanced. They are being trained as mechanics, miners, engineers, locomotive and truck drivers, textile workers—Leopoldville, the capital, has some of the largest textile mills in Africa—also as agriculturists and cattle breeders. The Colony now raises cotton, rubber, rice, manioc, peanuts, coffee, palm kernel nuts, cocoa, and pyrethrum and derris either for local use or for export. The exports rose to over $400 million in 1952. The native quarters in Leopoldville and in the Katanga region are among the best in Africa, as is the native standard of health. The purchasing power of the native has been steadily increasing and in Leopoldville, for example, the natives were reported to have owned some 60,000 bikes in 1951.

The obverse side of the benevolent patriarchal Government given to the natives by Brussels is, for example, the limits on native movements. There are curfews at night in the cities and, of course, nobody votes—neither natives nor whites. However, a bill passed recently will give natives and whites the right to vote and to be elected to municipal boards, the idea being to teach the native self-government on the community level first.

Not everything, however, is rosy in this most prosperous of African colonies—which, incidentally, has been attracting plenty of American capital. Next to the Union of South Africa, we have the largest in-

vestments in this area participating in all kinds of ventures with no restrictions on capital repatriation and dividend transfer. In the first place, the boom has led to inflation. Second, there is a labor shortage problem. The demand for native labor for the mines and for many other European-run enterprises has taken too many natives away from tribal communities where they had been raising food for themselves and for the mining settlement. The Government is now confronted with the problem of whether to let the mines have a continuous supply of cheap labor or whether to preserve a better balanced economy. At any rate, the Belgians seem to have become increasingly aware of what one recent visitor called "the enormous forces swelling around them."

To avoid trouble in the future, the whites are not permitted to acquire land in the Belgian Congo except with the Government's permission. Furthermore, according to a law passed within the last few years, any Belgian Congo native, if qualified by education, acquires the "assimilated" status: this entitles him to a passport, to the right to live in European quarters, and to the same wages and privileges as the Europeans. This eliminates angry pressure against the color bar by the educated natives, who in the Belgian Congo are still very few, there being no college or university.

A similar "assimilado" system has been adopted by the French and the Portuguese in their colonies. The qualification is knowing how to read and write French or Portuguese, respectively. An assimilated native becomes a full fledged French or Portuguese citizen, entitled to vote and to be elected to the Paris, or Lisbon, parliament. There are, however, relatively few assimilados in the rich Portuguese colonies of Mozambique and Angola where the economic development has been slow. Tribal systems have had relatively little interference, and the economic transition problems are not serious. Like the Belgians, the Portuguese have kept the communists out, but not so the French. France's largest native labor union in West Africa is communist controlled, and communist leaders openly boast of having forced the administration to introduce new labor laws.

The French colonies south of the Sahara cover an enormous territory, almost one and one-half times that of the United States. While far more advanced than the Portuguese colonies, they have remained behind the British areas and the Belgian Congo in tempo of development. One reason for the slowness of the development is the lack of capital and entrepreneurial activity, which reflect the uncertain outlook in the mother country. The natural resources are enormous, the iron ore deposits in West Africa are of much the same nature as our own Lake Superior ores. Senegal reports vast deposits of titanium ores, and from French Equatorial Africa come reports of wolfram, copper, tantalum, and other top strategic materials. Finally, some important deposits of iron ore (60 to 70 per cent pure) as well as of zinc, lead, copper, and manganese have been found in the "wastes" of the Sahara. All this mineral wealth, however, lies far inland, and exploitation will have to await the building of railroads and highways. At any rate, French Equatorial and West Africa may not come into their own until the nearer-placed mineral resources are exhausted.

The problems of French Mediterranean Africa differ widely from other French African areas, where the native is being slowly assimilated and prepared for French citizenship. French North Africa, which includes (1) Morocco, where the United States invested more than half a billion dollars in building air bases, (2) *Algeria*, which is considered to be part of Metropolitan France, and (3) *Tunisia*, which controls the strategic Straits of Sicily, are all seething with nationalist ferment which the French are in the habit of branding as fanatic, unrepresentative, communist-inspired, etc. The fact is, however, that North Afrcan nationalism is real. Nationalists in all three countries still favor economic, strategic, and cultural cooperation with France, and dominion status within the French Union. The danger is that Paris may miss the bus.

Nationalism in French North Africa

The situation is highly complicated in all these countries, and this together with the paralysis of the Paris Government and the attitude of French "colons" (settlers) accounts for France's hesitation. In Morocco there are really two countries to be dealt with. In the lowlands, where most of the cities are located, the Arabized population is highly nationalist and anti-French; the intellectuals, who resent being treated as colonials, are bitter and turning toward communism. That other Morocco consists of conservative, religious Berber-speaking tribes who prefer the enlightened French rule to that of Arabized lawyers and labor unions with communist leanings.

In Algeria, the situation is complicated by the presence of at least one million French settlers who have brought capital with them and are chiefly responsible for what Algeria is today: a highly prosperous country with a general standard of living compared with that in Spain or Greece. The French "colons" fear the domination by the Moslem majority and the lowering of the quality of the government. Nevertheless the increasing participation of the Moslems in the government is in the cards, and the two peoples simply will have to learn how to live and work together. This is also true of Tunisia which has a status similar to that of a dominion within the French Union.

West Africa On Way To Self-Rule

In British controlled Africa, two different types of government evolved. In (*Please turn to page* 158)

Place of Africa in Respect to Free World's Reserves of Metals and Minerals

(in thousands of metric tons)

	Africa	U. S.	Free World
BEAUXITE: (French West Africa, Gold Coast)	28,000	50,000	1,500,000
ANTIMONY: (Rhodesias)	150	110	1,300
CHROMITE: (South Africa, Rhodesias)	(a)	10	
COPPER: (Congo, Rhodesias)	108,000	25,000	200,000
IRON CRE: (35 percent or above) (French West Africa, Liberia, Sierra Leone)	13,650,000	6,500,000	103,000,000
LEAD: (Morocco, Congo, Nigeria, Rhodesias)	4,300	8,300	40,000
ZINC: (Morocco, Congo, Nigeria, Rhodesias)	5,000	21,200	65,000
MANGANESE: (25 percent and above) (South Africa, Morocco, Gold Coast)	160,000		500,000
TIN: (Congo, Nigeria)	800		5,000

(a)—Many million tons. Source: The Paley Report.

Stocks That Have Made SUCCESSIVE HIGHS

—In 1950-1951-1952-1953

By WARD GATES

It is surprising that out of more than 1,000 issues listed on the New York Stock Exchange, only a mere handful have been able to make successive gains in earnings, with new market highs for their stocks, during the years 1950-1953. It might have been expected that a much larger number of companies would have been able to show consistent gains in such a period of expansion. This may be a reminder that most companies, no matter how otherwise successful, are likely to experience ups and downs in their earnings from year to year, and that this logically will be reflected in similar fluctuations in their shares.

It is an outstanding performance for a company to make progressively new highs in earnings and its stock prices. When the number is as limited as in this instance, the identity of the companies becomes of more than usual interest.

In order to determine which companies had the best over-all record in respect to earnings and market price since the end of 1949, our staff made a special survey and found that there were fifty odd among the more prominent concerns. However, in most of these cases the record was marred either by failure to increase earnings in each of the four years under consideration, or by failure to make consistently new market highs, or both. Of these fifty, fifteen, however, passed the test of progressively higher earnings and market price. Twelve qualified on all counts but the remaining three—Aluminum Co. of America, Continental Can and Ingersoll Rand—were also included because, while the sequence of higher annual earnings were broken on a single occasion, this was not considered sufficiently important to warrant their rejection, since they qualified in all other respects.

Special Factors Operative

It will occur at once that the records of these fifteen companies have been exceptional since they stand out even against the almost but not equally impressive records of other successful members of their industrial groups. It is significant that the records were possible only because of special factors operating in each case. They are briefly presented in the "comments" accompanying the table.

These factors are important not only because they relate to the reasons for striking success in recent years but because they indicate that a solid base has been laid for future earnings. It is for this reason that the capabilities of these companies to make exceptionally pronounced and consistent progress has more than ordinary significance. It indicates that with these factors continuing to operate, each of the companies is likely to fare well (though perhaps not to precisely the same degree as in each of recent years) as a result of the fundamental dynamism reflected in management policies.

A typical example of sound and progressive management for future growth is Continental Can. Basically a can manufacturer, the company in recent years has spread over allied fields to an astonishing degree. It is now well diversified in the newer fields of container manufacturing and is aggressively laying a strong base for future earnings. While gains in earnings have not been spectacular, they have been quite steady, with only one exception in 1952, and the steady advance in the price of the shares, which seem to have formed a definite market pattern, is a reflection of investors' estimates as to longer-range potentials.

Space does not permit detailed description of the

remaining companies but several with special factors operating in their favor are worthy of some additional comment. Thus, General Telephone is expanding rapidly in important regions of California, some of these in process of heavy industrialization, stimulating, in turn, new residential centres. Houston Lighting & Power is similarly situated with respect to serving the growing centres of Houston and Galveston, with their impressive and expanding industrial complex.

Similarly favored by location in regions requiring massive increase in rail tonnage the three rails—Southern, Denver & Rio Grande, and Texas & Pacific—have made phenomenal gains in earnings in recent years and have placed themselves in a solid position so far as the longer-term future is concerned.

Among companies in somewhat specialized fields, Sperry Corp. has distinguished itself with a growth in stockholders' equity per share of from $3.19 in 1933 to $33.24 at the end of 1952. While the company has been engaged principally on government business, developments connected with commercial use of new products are important and hold out promise for the future. Among the most significant of these is hydraulic equipment, extensively used in power steering and construction machinery. The company is one of the leaders in specialized forms of electronic equipment.

These and other facts have been set forth in the table to indicate the basic (*Please turn to page* 163)

15 Stocks in Four-Year Uptrend

	1950	1951	1952	1953
Aluminum Co. of America				
Earned Per Share ($)	4.54	3.77	4.19	5.50*
High Price for Year	36⅞	44⅛	49¾	53⅝**
Continental Can				
Earned Per Share ($)	4.53	4.61	4.22	4.90
High Price for Year	41⅜	45½	48¼	56¼
Denver & Rio Grande West.				
Earned Per Share ($)	12.49	18.10	18.46	24.75
High Price for Year	58	69½	85½	97
Ex-Cell-O Corp.				
Earned Per Share ($)	4.59	5.76	7.42	7.40
High Price for Year	44	53	55½	59¾
Gen. Amer. Transportation				
Earned Per Share ($)	2.48	2.88	3.03	3.50
High Price for Year	27⅞	29⅜	31⅞	36¾
General Dynamics				
Earned Per Share ($)	1.52	4.53	5.72	***
High Price for Year	21⅜	27⅝	45⅝	46¼
General Telephone				
Earned Per Share ($)	2.64	2.63	3.15	4.00
High Price for Year	30¼	32	35¾	40¼
Goodyear Tire & Rubber				
Earned Per Share ($)	7.81	8.18	8.30	8.50
High Price for Year	33⅛	50	54¾	59
Houston Light & Power				
Earned Per Share ($)	1.35	1.40	1.78	2.10*
High Price for Year	18¾	21⅜	26	26½**
Ingersoll Rand				
Earned Per Share ($)	9.25	9.80	10.08	9.20
High Price for Year	83	91½	96¾	101
Panhandle Eastern Pipe Line				
Earned Per Share ($)	2.66	3.03	4.99	5.20
High Price for Year	49¾	62	83½	88¾
Phillips Petroleum				
Earned Per Share ($)	4.24	5.11	5.17	5.40
High Price for Year	40⅛	54	64⅞	69½
Southern Railway				
Earned Per Share ($)	7.47	6.11	9.57	12.75
High Price for Year	25½	32	42	49⅞
Sperry Corp.				
Earned Per Share ($)	4.72	5.36	6.75	7.25
High Price for Year	33½	36⅞	45¼	49⅛
Texas & Pacific Ry.				
Earned Per Share ($)	18.23	18.90	27.02	28.00
High Price for Year	85	103½	135	138

COMMENTS

ALUMINUM CO. OF AMERICA—Company's output by end of 1953 will account for more than one-third of the nation's aluminum capacity. Earnings increasing and would be higher but for heavy depreciation and accelerated amortization charges. Stock, split 2-for-1 in 1952, may be retained for long-term investment but has rather fully discounted nearby prospects.

CONTINENTAL CAN—Greatly enlarged capacity and broadened diversification in paper and plastic containers has increased sales potentials. Classed as a "growth" stock and appears to be in long-term up trend, allowing for usual temporary reactions.

DENVER & RIO GRANDE WESTERN—Has benefited greatly from new industrial operations in regions traversed, especially in Colorado. Subject to cyclical changes in traffic, stock has fully discounted rise in earnings, after declaration of 50% stock dividend and possible conversions from preferred stock. Stock would be attractive again only after wider dip than recent.

EX-CELL-O CORP.—Benefiting especially from demand for precision aircraft parts. "Pure-pak" division in expanding phase with potentialities in milk and ice-cream packaging machines. Lower business expected from machine tools. Stock worthy of retention for longer-term.

GENERAL AMER. TRANSPORTATION—Basic business in leasing tank and refrigerator cars but diversifying through new nickel-plating process. Sound and sustained earnings record should continue. Stock suitable for retention for long-term investment.

GENERAL DYNAMICS—Basic activities in submarine building, with atomic-powered vessels an important development. Large interest in Canadair Ltd. and 17% ownership of Consolidated Vultee gives company strong position in military aircraft field. Earnings rapidly increasing. Stock suitable mainly for those interested in long-term speculative possibilities.

GENERAL TELEPHONE—Has made very rapid post-war progress in additions to telephone service. Beneficiary of new rate increases and toll agreements with the Bell System. Earnings in steady uptrend and stock suitable for long-term investment.

GOODYEAR TIRE & RUBBER—Company has maintained high earnings level, buttressed by extension into chemicals. Elimination of excess profits tax an important future factor. Present high earnings fairly well discounted for time being but stock may be retained on long-term growth prospects.

HOUSTON LIGHT & POWER—Beneficiary of rapid industrial growth in Galveston and Houston, Texas. New facilities recently installed an important factor in enlarging gross revenues and bringing about economies in operation. With further growth of the territory envisaged, company's outlook is favorable and stock may be retained.

INGERSOLL RAND—One of the principal suppliers of the capital goods industries, this company has had a favorable earnings record for many years. Nearby indications are for somewhat smaller earnings owing to contraction of plant expenditures but basic position sound and well fortified financially. Stock has rather fully discounted high earnings level of past few years but may be retained for long-term investment purposes.

PANHANDLE EASTERN PIPE LINE—(Please see comment in "New Problems on the Horizon for Natural Gas," appearing in this issue.)

PHILLIPS PETROLEUM—Well diversified and important producer, this is the largest producer of natural gasoline. Has greatly expanded its holdings of natural gas properties. Recent financing has put damper on stock temporarily but long-term growth prospects considered substantial. Original purchase should be deferred until better prices available but long-term holdings should not be disturbed.

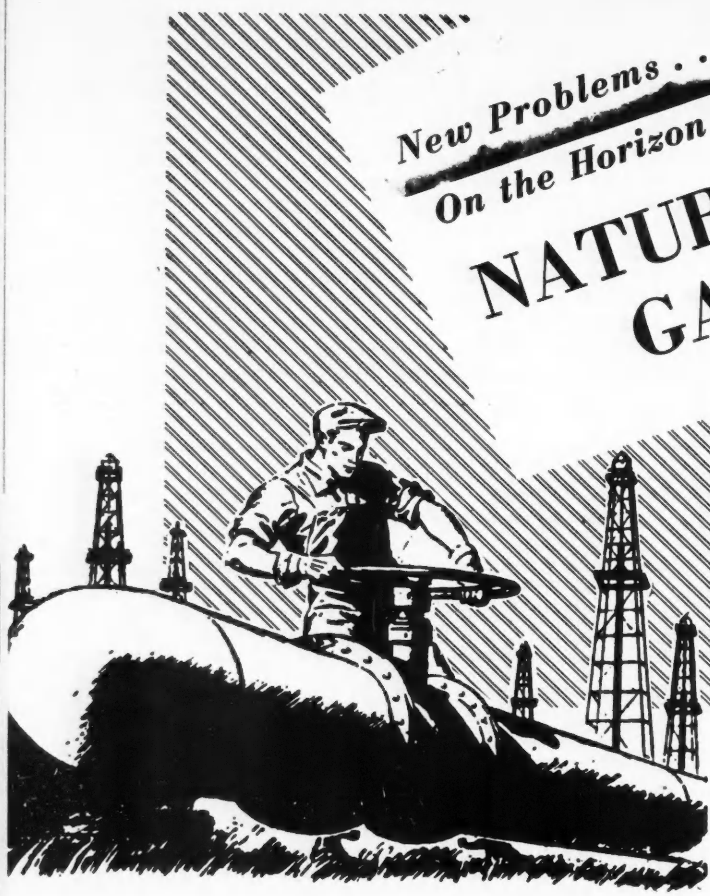
SOUTHERN RAILWAY—Long-term industrial development of South gives strong supporting base to this carrier's revenue potentialities. Company in improved position to finance longer-term maturities. Stock suitable for long-term investment based on growth potentialities.

SPERRY CORP.—Government business should continue at high levels in specialized electronic devices. Diversification in commercial lines tends to stabilize earnings base. Stock suitable for inclusion in portfolio but for longer-range speculative purposes.

TEXAS & PACIFIC RAILWAY—Very high level of earnings due to expansion in Southwest in recent years. Missouri Pacific owns about 60% of stock. Regular $5 annual dividend covered by wide margin. Last year $2 extra declared, which should be repeated. Despite high earnings, stock not suited for ordinary investment owing to thin market.

***—Net estimated per share for all companies for 1953.**
****—High for the year to-date for all companies.**
*****—Estimate not feasible.**

New Problems . . . On the Horizon for NATURAL GAS



By ROGER CARLESON

The gas utility industry is the oldest division of the utility business, at least in corporate form—manufactured gas has been served to customers in some areas for well over a century, and several gas companies have even paid dividends for 100 years or more.

Natural gas was also used locally 100 years ago, and began to be used on an interstate basis perhaps 50 years ago. During the 1928-29 bull market, the construction of larger pipe lines was promoted. This, in turn, was enhanced by the development of electric welding for large pipes. However, the depression checked this growth and in World War II it was difficult to obtain pipe. In the post-war period, construction has been rapid, approximately doubling pre-war mileage of pipe lines. These lines opened up to natural gas service large areas in the east and north which previously had been confined to manufactured, or in some cases, mixed gas. In New England and the Pacific northwest, manufactured gas was used until recently, but New England is fast converting to natural gas and the Pacific northwest will probably obtain natural gas within a year or so.

While the recent increase in use of natural gas has given the gas industry a great impetus, it has raised new difficulties in appraising gas securities. It is necessary to study the cost of gas in the area involved, the rate of growth of its use, and the competition, regulatory and financial problems involved. Thus the problem of analyzing gas utilities is now more difficult than that of comparing electric utilities.

The taking over of the "Big Inch" pipe lines (built during the war to help move oil to the East) by a gas utility company expedited the era of rapid development of pipe lines. The northern utilities were tired of fighting higher coal costs and anxious to get natural gas. The big gas reserves which had been discovered in the mid-continent area, in Texas and Louisiana had replaced the dwindling Appalachian reserves and were opened up to northern consumption through new pipe lines. Texas Gas Transmission, Texas Illinois Natural Gas and Mississippi River Fuel brought gas from the Carthage field in Texas and the Monroe field in Louisiana northward to serve the middle west. The big Hugoton field in northern Texas, western Oklahoma and southwestern Kansas, together with the adjoining Panhandle field in Texas, were tapped earlier by Northern Natural Gas to serve Nebraska, Iowa and Minnesota. Panhandle Eastern Pipe Line one of the earlier projects had been taking gas both from Hugoton and the Gulf area of Texas to supply gas for Detroit and other areas in Michigan, Ohio, Indiana, Illinois and Missouri.

Some Important Extensions

Four other big pipe lines now bring gas from Texas-Louisiana fields to serve the southern and eastern states: Southern Natural Gas, Transcontinental, Tennessee Gas Transmission, and Texas Eastern Transmission. Most of this gas is wholesaled to other systems such as Columbia Gas, or sold to local distributing utilities, before it reaches the consuming public. In the west El Paso Natural Gas has built its way west to California where local gas reserves no longer are adequate to service this rapidly-growing state. El Paso tapped not only the Panhandle field in Texas but also the San Juan Basin in northern New Mexico. Colorado Interstate Pipe Line, with large reserves in Hugoton and Panhandle, serves Denver and other Colorado areas.

The one neglected area is the Pacific northeast—Oregon and Washington. For some years there has been considerable rivalry between U. S. and Canadian interests as to who should build a pipe line to

Statistical Summary of Natural Gas Companies

	Operating Revenues 1951	Operating Revenues 1952	Operating Revenues 1st Half 1953	Net Per Share 1951	Net Per Share 1952	Net Per Share 1st Half 1953	Indicated Current Div.	Div. Yield	Recent Price	COMMENTS
	(Millions)									
PIPE LINES (Some Production)										
Southern Natural Gas	$ 35.4	$ 39.4	$ 21.9	$2.14	$2.15	$1.06	$1.40	5.6%	25	Rapidly growing wholesaler, benefitted by industrialization of south. Big expansion program nearing completion. Average yield, dividend increase seen possible in 1954.
Tennessee Gas Transmission	75.6	104.2	64.4	1.39	1.86	.79	1.40	6.3	22	Large system, with heavy senior capital. Last year's revenues nearly eight times 1945. Gains in share earnings less impressive, but satisfactory. (This year might be slightly lower.) $1.40 dividend rate expected to continue.
Texas Eastern Transmission	84.1	93.8	67.5	1.75	1.11	.74	1.00	5.5	18	Also large, with rapid growth, but share earnings disappointing in 1952. Outlook now improved by settlement of Algonquin Pipe Line issue; however, future rate decisions also important.
Texas Gas Transmission	43.3	47.4	31.8	1.80	1.14	.96	1.00	5.8	17	Medium-sized pipe line, share earnings record irregular. Dividends initiated last year. Earnings should recover this year from bad 1952 showing, due to higher rates.
Transcontinental Gas P. L.	39.2	51.8	29.4	1.35	1.24	.86	1.40	6.3	22	Important pipe line, with common stock equity on low side. Earnings showing substantial improvement this year as result of rate increase, which however not yet finally approved by FPC.
INTEGRATED COMPANIES										
American Natural Gas	97.5	103.6	113.1[1]	2.58	2.34	3.33[1]	1.90	5.2	36	One of the older systems with dividends paid since 1904. Planning $200 million expansion. Earnings record generally satisfactory.
Columbia Gas System	188.4	203.5	129.8	1.06	.83	.62	.80	5.9	13½	Largest gas company, revenues exceeding $200 million. Share earnings record somewhat irregular despite high equity ratio. Earnings might improve sharply if requested rate increases allowed. High yield, payout also high.
Consol. Natural Gas	158.8	174.1	112.7	5.67	4.19	3.70	2.50	4.8	52	Old-line company conservatively capitalized. Earnings and dividend record relatively stable, though 1952 profits disappointing due to lag in obtaining rate increases.
El Paso Natural Gas	61.9	78.0	91.6[1]	3.06	2.95	2.71[1]	1.60[2]	5.0	32	Postwar growth extremely rapid, earnings and dividend record good (one of the leaders). Heavy expansion program plus investment in Western Natural Gas afford speculative possibilities.
Lone Star Gas	59.1	63.0	39.3	1.76	1.55	1.35	1.40	5.9	24	Conservative old-line company with dividend record since 1926. Rates not subject of FPC regulation. Good gas reserves. Growth steady but not spectacular.
Northern Natural Gas	39.9	47.4	33.5	1.76	1.48	1.47	1.80	4.8	37	Conservative-type capitalization and good dividend record. However, share earnings in downtrend 1948-52. Protracted rate litigation with FPC. Spin-off of producing properties seen future possibility.
Oklahoma Natural Gas	24.8	28.8	30.1[1]	1.46	1.39	1.22[1]	1.15	6.0	19	Medium-sized company with fair growth. Share earnings irregular, with poor showing recently due to delay in adjusting rates to higher costs. Yield above average.
Panhandle East. Pipe Line	52.2	91.8	48.1	3.03	4.99	2.33	2.50	3.7	67	Probably most successful pipe line in converting growth into higher share earnings, last year five times 1940 figure. However, current earnings difficult to appraise account involved rate situation.
Peoples Gas Lt. & Coke	73.0	102.6	68.4	9.16	8.26	6.34	6.00	4.5	131	Conservative old-line company with good record. Share earnings in down-trend past three years, but may recover to around $10 this year. Dividend well covered.
United Gas Corp.	125.6	158.9	104.7	1.56	1.56	1.20	1.25	4.8	25	Big conservative company with large gas reserves and heavy expansion program. Earnings steady in recent years, this year increasing sharply, suggesting possible dividend increase next year.
RETAIL DISTRIBUTORS										
Brooklyn Union Gas	43.9	45.9	25.7	2.22	1.70	1.45	1.50	5.7	26	Important retailer with moderate growth but irregular record. Recent earnings disappointing, but management optimistic over space-heating growth, facilitated by conversion to natural gas.
Pacific Lighting	124.4	138.8	150.2[1]	3.36	4.97	5.20[1]	3.25	5.0	65	Largest retailer, capitalization well-balanced, dividends since 1909. Current earnings improving due to rate increase. Earnings fluctuate somewhat with weather conditions and oil competition.

[1]—12 months ended June 30, 1953. [2]—Plus stock.

service this area. The Federal Power Commission is acting as referee and the decision should be announced within a few months.

The demand for natural gas in many northern areas has been almost insatiable, due not merely to the growth of population and industry, but also to the widespread conversion from use of coal and oil to gas for house-heating. In some states the utility commissions have had to "ration" or regulate the number of house-heating customers which could be accommodated, but these restrictions are gradually being relaxed. The pipe lines have been busy in the past two years adding to their capacity by increasing the number of compressor stations (which speed the flow of gas in the pipes), building of additional loops, and construction of connecting lines.

Storage Capacity Needed

Because so much of the increased demand for natural gas has been for house-heating purposes, the pipe lines and the distributing utilities have discovered that the business is getting highly seasonal, with heavy winter peak loads when the weather is cold. It has proved necessary to maintain heavy capacity to take care of these cold days, whereas in the hot summer months the residential demand is far smaller, and it is necessary to sell the extra gas to industry or to electric utility companies for fuel, at relatively low prices.

Instead of building more and more pipe lines to take care of the rising winter load, the utilities have found a way out of the dilemma by constructing larger storage capacity, surplus gas being stored during the summer months and held in reserve for the winter peak load. This eliminates a good deal of the "interruptible" or dump sales to industry, which are relatively unprofitable. This storage is on too big a scale to use the old-fashioned metal gas tanks. The new method is to find depleted oil or gas wells out in the country which can be adapted to storage purposes. A number of these "underground cavern" projects have already been completed and others are under way. Peoples Gas and its affiliates have recently been working on a $17 million project in the middle west, in which they have encountered some difficulties due to leakage. Transcontinental in the east has been unable to find satisfactory storage space thus far, but is continuing its search.

Meanwhile, the manufactured gas industry which seemed to be rapidly on its way out, is acquiring a new lease of life. Considerable progress has been made in reducing the "holder cost" of gas through (1) the development of an efficient oil-gas replacing the older water-gas or coke-oven gas, (2) use of cheap Bunker C oil along seaboard areas, and (3) the development of methods to separate valuable by-products in the production of oil-gas.

Portland Gas & Coke, which appears to be a leader in the by-product field, can produce gas for about 20¢ per mcf (holder cost). However, the company has thus become heavily involved in the production and sale of the by-products which, of course, is much more cyclical than the utility business. New England Gas & Electric has also experimented successfully in this field and can produce gas for about the same cost as it can buy natural gas (the latter is fairly high-priced because of the long haul from Texas). The New England utility has decided to use natural gas from two pipe lines, but it is also retaining its oil-gas plants and will use gas from this source to supplement natural gas as its sales grow (they are expected to double over the next five years).

What the Investor Should Know

The investor in gas stocks has a varied menu from which to choose. There are five main phases to the business: (1) ownership of natural gas reserves; (2) production and sale of this gas, usually under long-term contracts; (3) transportation by pipe line; (4) wholesaling of gas; and (5) retail distribution of natural, manufactured or blended gas. The difficulty is that the majority of the gas companies combine several of these functions. Thus some pipe lines own substantial gas reserves, but others act as carriers only. The "integrated" companies, generally of large size, produce some gas, buy additional gas from others, transport it and sell it either at wholesale and/or retail. (Columbia Gas, the largest gas company, is a good example of this type). Even among the distributing companies there is a distinction between wholesaling and retailing, between companies which distribute straight natural gas, those which distribute blended gas of high BTU content, and those which still adhere to low BTU gas even though they may use considerable natural gas to enrich their manufactured gas (Public Service Electric & Gas is an example of the latter type).

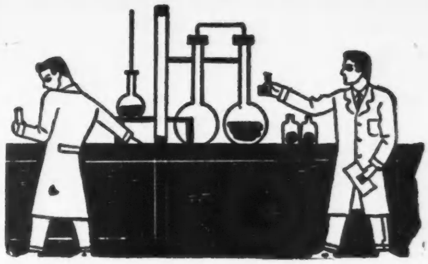
To change over from manufactured gas of about 525 BTU heating value to natural gas (or blended gas) of some 1,020 BTU content is a very expensive undertaking. Because of the increase in pressure, all consumer appliances must be carefully adjusted, mains must be reinforced, and a new operating technique developed. These large expenditures are usually amortized over a 10-year period. Unless all manufactured gas facilities are retained for peak-shaving purposes, there may be considerable abandoned property to be charged off. There will also be labor problems due to union objections to reducing the number of production employees.

A number of companies have now gone through this readjustment period, but others are still in process. Considerable irregularity of earning power may develop temporarily before wage savings and the lower cost of natural gas offset the heavy amortization items. The development of increased house-heating sales also varies greatly, depending on competition of coal or oil which in turn depends largely on the cost of transporting these fuels from the mine or the well. All of these factors make for a highly confused picture. Each company must therefore be studied with respect to the degree to which it had adopted new methods, the timing of its conversion process, the aggressiveness of its sales policies, the degree of local competition with other house-heating fuels, and the success which the company may have in adjusting its rates to changing costs.

The Problem of Regulation

For investors who are interested in the pipe lines and integrated companies, the question of regulation is of paramount interest. This is because of the rapid rise in operating costs during the past two or three years due to sharply rising prices for field gas. A few years ago gas (*Please turn to page* 159)

Are DRUG Stocks Fully Deflated?



By J. C. CLIFFORD

The "wonder drugs"—the hormones, the sulfonamides, and the antibiotics—credited with such an important role in boosting the ethical drug industry's sales and earnings in the postwar years, have unexpectedly encountered rough going. The generally accepted explanation is that the industry is suffering from overproduction, especially in antibiotics, and even more particularly penicillin. The history of penicillin's rise and fall as a contributor to sales and earnings of the drug industry is only part of the story.

The industry, during the postwar years experienced an unprecedented demand for the new antibiotics, as well as its older products, from countries throughout the world where production facilities had been destroyed by war's ravages or which lacked facilities to produce such items as penicillin, streptomycin, or many of the other antibiotics that had been developed in the laboratories of American ethical drug manufacturers. Within the last two years, foreign manufacturers of ethical drugs have gotten back into stride with new plants and improved processes over their previous methods, adding their output of antibiotics to the world supply, causing marked declines in prices. With the advantage of lower production costs and favorable tariff rates, this recovery of foreign drug manufacture is likely to prove an important competitive factor in the American market, with some foreign governments applying restrictive measures against importation, because of a lack of dollars and to throw protection around their own national industries, setting up additional barriers to direct imports of American products.

Important American manufactures are attempting to counter these moves. Merck & Co., which last May merged the old-line pharmaceutical house of Sharp & Dohme, Inc., into its organization, has taken aggressive action, through its export subsidiaries, to meet these changed conditions and to anticipate future world marketing problems. Sales and warehousing operations were started in Brazil, and a branch was established in Cuba for promotion of sales in that country. Parke, Davis & Co., a pioneer in the development of international markets for its products, is strongly entrenched in foreign fields. It has manufacturing laboratories in Mexico, Brazil, India, Australia, and Cuba, with sales offices and warehouses, and major distributors in practically every country outside Soviet Russia and its subjugated countries.

Abbott Laboratories, also, has been pursuing an aggressive worldwide expansion program, further strengthening its firmly rooted manufacturing laboratories, branch sales offices and other facilities encircling the globe. With the completion of the new Uruguay plant, Abbott will have 7 manufacturing laboratories in the Western Hemisphere outside the U. S., and Canada. In the Eastern half of the world, it has 5 plants, and with the opening in 1952 of operating branches in The Netherlands and at Geneva, Switzerland, increased to 39, the number of branches or subsidiaries in its world-wide chain.

For the industry as a whole,

however, the principal problem is one of over-capacity of not only penicillin, but streptomycin and some of the other antibiotics. This has been aggravated by the number of proprietary manufacturers, fascinated by the steadily increasing sales and earnings of well-established ethical drug companies, entering the ethical field. These ranks have further been swelled by still other companies, basically engaged in totally unrelated businesses but getting into the production of antibiotics, as well as other medicinal agents. Commercial Solvents Corp., for example, which started its pharmaceutical business a decade ago, is now an important manufacturer of bulk pharmaceuticals, including antibiotics and vitamins.

Chas. Pfizer & Co., a few years ago, was predominantly a manufacturer of fine chemicals sold to industrial users, and has since so diversified its products that antibiotics and other pharmaceuticals now account for more than half of sales. In common with others in the field, it is applying its research facilities to the development of new products. Last year, Pfizer expended more than $5 million on research and development. Merck & Co. spent $5.6 million for the same purpose in 1952, and although Parke, Davis did not reveal the amount of its research expenditures, it is safe to assume that the company, which for the last 67 years has dedicated itself to fundamental scientific investigation, has continued to justify its claim to the title, "The House of Research."

Flow of New Products

Research, always an important factor in the industry, has taken on a new meaning. A new competitive era began with the entry of other companies into the field and with the development of the many antibiotics. To maintain a satisfactory rate of growth, it is essential for the drug manufacturers to maintain a constant flow of new and improved products. The tempo of competition in bringing forth new and improved products has accelerated sharply in recent years. New drugs and new drug compounds are being developed almost daily, with simultaneous research discoveries becoming more frequent. The rapidity of these developments poses new marketing problems, the cost of which usually runs high. It has become a matter of "getting there fustest with the mostest" by establishing the market for a new product as quickly as possible, and hoping that a new competitive antibiotic will not immediately make its appearance.

The long established ethical drug manufacturers, and the proprietary and other companies that have entered the ethical field need to be studied in the new light thrown upon them by the rapid developments in the industry. Each of the companies participating in the expansion of antibiotics and other drugs must be considered as a separate entity and its position in the industry weighed in relation to its independence of any one particular product such as penicillin or streptomycin. For the guidance of our readers we present, herewith, a brief analysis of the ethical drug and the proprietary pharmaceutical companies:

Abbott Laboratories, one of the oldest ethical drug manufacturers, lists among approximately 1,000 products, a wide list of antibiotics, as well as sulfonamides, hormones, vitamins, and other pharmaceutical, medicinal, chemical and biological products, having world-wide distribution. Intensive research for which the company has long been noted, developed a number of new products in 1952 and so far this year, among these being several that are regarded as having significant prospects, not only in this country, but particularly in the export field.

Record sales of $85.5 million in 1952, continuing the uptrend since 1945, are likely to be surpassed in 1953. Conservative estimates place this year's net at $2.30 a share, a slight improvement over the $2.25 a share reported for 1952, but still under $2.77 a share reported in the preceding year when the stock sold at a high of 62. The company has strong finances and current earnings show ample coverage for indicated annual dividend rate of $1.80 a share. The stock, at prevailing low levels of 40, appears to reflect fully the general upset of the industry caused by the price weakness in but two of its many products, namely, penicillin and streptomycin.

Merck & Co., Inc., another of the old line ethical drug and chemical companies numbers among its products more than 1,000 individual chemicals and drugs supplied to the medical profession, pharmacists, chemists and veterinarians, as well as to a variety of important industries. From the standpoint of dollar sales, Merck's largest single group of products are the vitamins, followed by hormones, antibiotics and sulfonamides. Price declines in all four groups in 1952, accounted for lower dollar sales in that year and a drop in net income from $1.62 a share in 1951 to $0.96 a share last year. Among the hormones, Merck's "Cortone" has undergone widening use. Clinical research has established a number of new uses for this product. Through improved manufacturing process at the company's new Cherokee plant, a 40% price reduction for this product was made possible last August, making it economically available to greatly increased numbers of people. Merck has further strengthened its position in the drug field, its research developing new medicinals and products for animal health and nutrition.

Although indicated 1953 net income is expected to provide not too wide a margin over current 80 cents a share annual dividend, the rate should be maintained. Acquisition, last May, of Sharp & Dohme should prove of increasing value to Merck in adding to its already broad line and expanding earning power. The company has strong finances, and its common stock, currently selling at about 18 does not appear overvalued.

The Norwich Pharmacal Co., generally regarded as a manufacturer of proprietary of consumer drug products, sales of which accounted for the major portion of 1952 volume, is steadily expanding production for the medical and veterinary fields.

Net sales of the company, in an uptrend for the last six years, attained a record high level of $18 million in 1952, a gain of 19% over the previous year. Net income also achieved an all-time high and was equal to $1.53 a share on the capital stock currently outstanding, compared with $1.31 a share in 1951. On the basis of 1953 first half results, the current year's sales volume is expected to exceed that of the previous year with net earnings estimated at $1.60 a share. At current price around 27, the annual $1.00 a share dividend rate returns 5.2%, an adequate yield on a stock that seems worthy of retention for future growth prospects.

Parke Davis & Co., with net earnings of $3.32 a share for its capital stock against $3.89 a share in 1952, should be the effect of the drop in antibiotic

Statistical Data on Leading Drug Companies

	Earnings Per Share			Dividends Per Share					
	1951	1952	Estimated 1953	1951	1952	Indicated 1953	Recent Price	Div. Yield	Price Range 1952-1953*
Abbott Laboratories	$2.76	$2.25	$2.30	$1.95	$1.95	$1.80	40	4.5%	64½-39⅛
American Home Products	2.99	3.03	3.30	2.00	2.00	2.00	42	4.7	42¼-35¼
Bristol Myers	3.65	1.47	1.75	1.50	1.60	1.00	18	5.5	35⅜-17½
Lambert Co.	2.45	2.20	2.50	1.87	1.50	1.50	21	7.1	25¼-18⅞
Lehn & Fink	2.66	2.39	3.04[1]	1.15	1.10	1.25	15	8.3	18⅝-13¾
McKesson & Robbins	4.51	3.60	3.80[1]	2.47[2]	2.50	2.50	35	7.1	46 -33¾
Mead Johnson & Co.	1.19	1.16	1.40	.80	.70	.70	14	5.0	15⅞-12
Merck & Co.	1.62	.96	1.00	.76	.80	.80	19	4.2	35½-17
Norwich Pharmacal Co.	1.29	1.53	1.60	1.00	1.00	1.00	19	5.2	27⅛-18½
Parke, Davis & Co.	3.89	3.32	2.00	1.90	1.90	1.60	32	5.0	58 -30½
Pfizer (Chas.) & Co.	2.42	2.17	2.50	.98	1.15	1.15	32	3.6	42¼-26
Rexall Drug	.55	.56	.80	.10	.15	.15	6	2.5	6⅞- 5
Schering Corp.	.78	.96	.90	......	.25	.50	11½	4.3	17⅝-11
Sterling Drug	2.91	2.63	2.95	2.25	2.00	2.00	35	5.7	43¾-32¼
Vick Chemical	2.88	2.79	3.18[1]	1.20	1.20	1.20	28	4.2	28⅛-23⅛

***—To October 8, 1953.** **[1]—Fiscal year endde June 30, 1953.** **[2]—Plus stock.**

prices, and the temporary set-back it experienced as a result of exaggerated unfavorable publicity for its Chloromycetin. Net sales of $126.3 million for last year, compared with $138.1 million in 1951, and $105.7 million in 1950.

Parke, Davis, in June of this year, reduced its quarterly dividend from 45 to 35 cents a share as a result of last year's slump. Indications are that the lower annual rate will be covered by a fair margin, per share net being estimated at $2.00. At its current depreciated price of 32, the stock, yielding 5%, appears to have given full recognition to the general situation in the drug industry and its own difficulties in particular.

Chas. Pfizer & Co., in business since 1849, principally as a producer of citric and other organic acids, has become one of the largest producers of antibiotics, including penicillin, streptomycin, polymyxin and its exclusive product Terramycin, a broad-spectrum antibiotic, sales of which have increased steadily since its introduction in 1950.

Net sales in 1952, despite the price drop in penicillin and some other antibiotics, increased to $107 million, as compared to $100.2 million in 1951, and $60.8 million in 1950. Lower profits margins cut earnings last year to $2.17 a share from $2.41 a share in the previous year. The current year may produce net income at a record figure equal to $2.50 a share. The company is strong financially, and increasing earnings may portent a raise in the current annual $1.15 a share dividend. At its recent price, the common stock is selling approximately 10 points under its 1952-53 high, and six points above its absolute level in that period. Pfizer appears to be one of the most attractive issues in the group.

Schering Corp.'s output of sex hormones accounted for more than one-third of total 1952 sales. Competition in this field is severe and profits are restricted. The company is one of the smaller drug companies. Sales in 1952, totaled $18.9 million, up $3.5 million from the previous year. Indications are that 1953 sales will show another slight increase, but earnings, because of price reductions in cortisone and other hormones are likely to hold net to 90 cents a share. While dividend coverage would be sufficient, need of funds for new facilities and working capital is likely to dictate conservatism in the matter of dividend policy.

American Home Products Corp., one of the largest pharmaceutical companies, producing and distributing a broad line of packaged drugs and cosmetics, is also developing increasing importance in antibiotics, hormones, and sulfonamides. These new products are contributing importantly to total sales, which last year amounted to $201 million, 45% of the total being accounted for by pharmaceuticals, biological and nutritional products. Although 1952 volume was $6 million under the 1951 total, net for the capital or common stock was equal to $3.05 a share, compared to $3.01 a share in 1951, and $3.08 a share in 1950. Strong finances and stable earning power with indicated record net for the current year, may justify a higher dividend distribution than the current $2 a share annual rate. Growth potentials make this issue attractive for long-range holding.

Bristol-Myers Co., primarily a manufacturer of proprietary drugs and toiletries, developed during the war years as one of the largest penicillin producers. The precipitate decline in penicillin prices, together with higher operating costs, cut 1952 earnings to $2.6 million from $5.3 million in the previous year. From per share earnings in 1951 of $3.65, net in 1952, fell to $1.47 a share. Although the company is well represented in the proprietary field with such products as toothpaste, toiletries and home remedies in which sales volume continues at a comparatively high level, the downtrend in earnings continued throughout the first half of the current year. Net income of $1.5 million fell under $1.8 million shown for the corresponding months of 1952, or 67 cents a share in the 1953 period on the increased outstanding common stock compared with $1.09 a share realized in the first half of last year.

Dividends of 25 cents a share, reduced from 40 cents quarterly at the beginning of 1953 are being earned. The company, after expenditures in 1952 of $5.1 million for expansion of its Syracuse laboratories, largely for facilities for streptomycin, disclosed a comfortable financial position at the close of last year. Its ratio of current assets, including $7.4 million in cash and marketable securities, was 6.3 to one of current liabilities. The stock currently priced around 18, appears to fully reflect adverse conditions and may be retained.

The Lambert Co., is essentially a manufacturer of an antiseptic, tooth paste, (*Please turn to page* 162)

DOW CHEMICAL

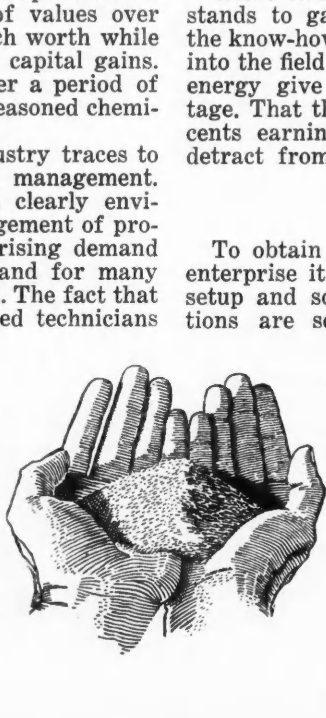
Prepares for the Atomic Age

By GEORGE W. MATHIS

What price growth? How much premium are investors prepared to pay for a seemingly assured increment in values in corporate enterprise? A question such as this is answered rather simply by a study of representative chemical stocks, of which the Dow Chemical Company is a shining example. The fact that investors are willing to pay as high as 22 times share earnings for Dow Chemical when other seasoned issues are available at 10 to 12 times earnings illustrates in a measure the price that a demonstrated growth equity can command. On the basis of dividend return a similar premium prevails. Whereas seasoned quality stocks are available at yields of 5 to 6 per cent, Dow affords a return of only about $2\frac{3}{4}$ per cent on the $1 dividend, not counting annual distributions in stock.

Chemical manufacturers have gained pre-eminence in technological progress in recent years and have established such an enviable growth record that popular stocks have commanded respect of portfolio managers. From the standpoint of price appreciation holders have been well rewarded. Although the immediate cash return on the investment usually is discouragingly low for investors dependent on dividend income, the enhancement of values over the longer range has proved very much worth while for those who can afford to wait for capital gains. The attraction of assured growth over a period of years accounts for the popularity of seasoned chemical issues.

Dow's leadership in a dynamic industry traces to its aggressive research and capable management. Potentialities of new products were clearly envisioned and brought to fruition. Enlargement of productive capacity to meet constantly rising demand was spurred by the war, when demand for many types of wonder chemicals skyrocketed. The fact that Dow had the management and trained technicians to take advantage of the opportunities presented enabled the company to gain unprecedented headway. The company's expansion in the last decade far surpasses that of any of its competitors—except Mathieson Chemical, which with the benefit of mergers showed a greater percentage growth in volume.



One of the most interesting of Dow developments has been its participation with Detroit Edison and twenty-five other companies, utility and manufacturing, in a joint study with the Atomic Energy Commission to determine the basis of utilizing nuclear reactors for private industry power production. The company's skilled techncians well experienced in some phases of atomic energy are carrying on an investigation which is ultmately likely to have a revolutonary effect on industry in general, as well as the power industry.

While this is a long-range project, the company stands to gain importantly by further developing the know-how of its personnel, and its early entrance into the field of research and development in atomic energy give it an undeniably outstanding advantage. That this cannot be translated into dollar and cents earnings in the immediate future does not detract from its longer-range significance.

Division of Operations

To obtain a better perspective of the vast Dow enterprise it would be well to examine its physical setup and some of its important products. Operations are segregated roughly into five divisions capable of producing upward of 600 different items. This wide diversification in output is derived chiefly from such common and abundant raw materials as salt, sea water and petroleum derivatives. So far as can be foreseen there is no prospect of a shortage of these essential materials. Oil and natural gas are becoming increasingly important as raw material sources.

The breakdown of products into major divisions shows that industrial chemicals still comprise the most im-

A Statement for the Magazine of Wall Street

By DR. LELAND I. DOAN, President, The Dow Chemical Company

One of the outstanding developments in the chemical industry in recent years is the phenomenal rise of petroleum chemicals, those versatile products derived from the basic raw materials, oil, gas and coal.

Despite the great growth of petrochemicals, only a fraction of a per cent of the total annual production of oil, gas and coal in our country is utilized at present in the manufacture of such chemicals. However, more and more of these raw materials are expected to be used for petrochemical production over the next quarter of a century in keeping with the anticipated over-all growth of the chemical industry.

Oil and gas will be freely available for many years and coal reserves for a period of several hundred years. In addition, it is significant that research and development in the chemical industry are providing the nation with methods of finding and recovering petroleum as well as methods of substituting lignite and shale oil in the making of hydrocarbon products.

Thus, with a bountiful supply of raw materials at hand, and with research assuring access to these materials, the petrochemical industry can look forward to greatly accelerated expansion in numerous major fields, including plastics, synthetic rubber, automotive chemicals, synthetic fibers, protective coatings and detergents. This expansion most certainly will have the notable effect of continuously improving the nation's standard of living.

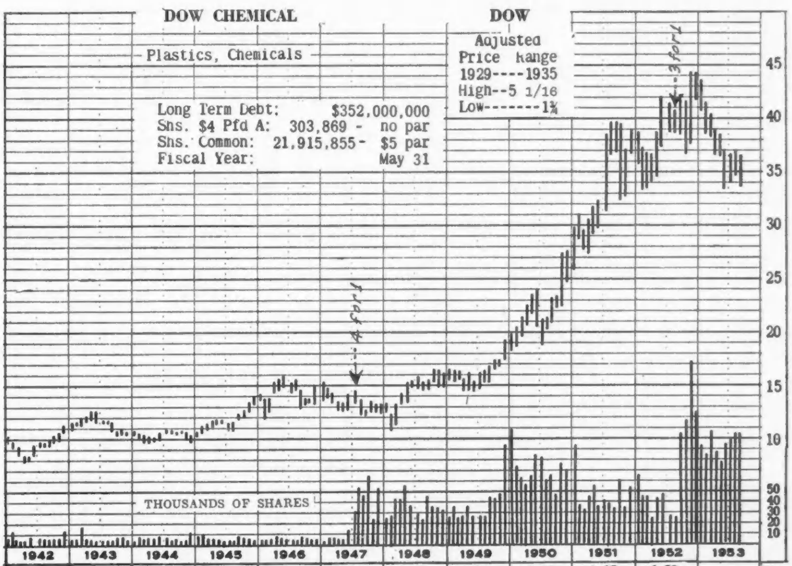
As for our own industry, we have been a basic producer of petrochemicals for many years. Since 1947 we have spent well over half a billion dollars for new plants for the production of a wide variety of chemical products, and a sizable portion of these expansion expenditures has gone into facilities to strengthen our position in the petrochemicals field.

portant segment with 48 per cent of the total for the 1953 fiscal year. The rapidly expanding plastics department ranks second in importance, contributing 30 per cent of volume in the last year, or twice the ratio prevailing six years ago. Sales in this segment reached a new high in the last twelve months at about $130 million, compared with a mere $20 million in 1947, a climb of 555 per cent since the end of the war. Magnesium has registered almost as significant gains. Shipments have not expanded so rapidly, but sales in the last year contributed 14 per cent of the total, as compared with only 6 per cent as recently as 1949. Agricultural chemicals held fourth position and improved substantially over the previous year, even though the proportionate volume represented only 6 per cent of the total against 5 per cent in 1952. Fine chemicals dropped off slightly to 2 per cent of the year's total shipments.

Although industrial chemicals have registered no phenomenal growth in the recent past, they have kept pace with the rise in Gross National Product and have contributed on the average about half of Dow's volume. Products in this group numbering about 500 include such basic chemicals as chlorine, caustic soda, chlorinated hydrocarbons and ammonia. Many standard products still are finding new markets in spite of keen competition and narrowing profit margins. With the opening of new plants, new lines have been added to broaden diversification and strengthen the company's competitive position. Numerous additions to the broad line include glycol derivatives ion-active agents, hydrophilic colloids and oxygen-active hydrocarbons. Promotional programs aimed at spurring consumer demand so as to sustain volume have been undertaken.

Leading Producer of Chlorine

Although the industrial chemicals are less glamorous than newer products, they afford greater stability in operating results than plastics and magnesium. Growth items in the industrial category include bromine, phenol and ethylene glycol. Many of these basic materials, especially chlorine, caustic soda, etc., account for sales in excess of $10 million annually. They are the "bread and butter" segments of the business. Dow probably is the leading producer



1942	1943	1944	1945	1946	1947	1948	1949	1950	1951	1952	1953	
.53	.53	.50	.37	.77	1.24	1.48	1.80	2.00	1.65	1.58		EARN
.25	.25	.25	.25	.25	.33⅓	* .33⅓	* .53⅓	* .80	* .80	* .80		DIV.
4.8	37.7	40.5	39.0	33.0	56.0	49.6	63.4	31.0	39.4	127.4	Wkg Cap $ Mil	

—* Plus Stk Div

Comparative Balance Sheet Items

ASSETS	May 31 1944	1953 (000 omitted)	Change
Cash	$ 14,120	$ 38,410	+$ 24,290
Marketable Securities	16,884	164,028	+ 147,144
Receivables, Net	13,126	49,782	+ 36,656
Inventories	16,642	74,269	+ 57,627
TOTAL CURRENT ASSETS	60,772	326,489	+ 265,717
Net Property	72,130	429,129	+ 356,999
Intangibles	072	461	+ 389
Investments	4,132	6,430	+ 2,298
Other Assets	2,510	6,370	+ 3,860
TOTAL ASSETS	$139,616	$768,879	+$629,263
LIABILITIES			
Notes Payable—Banks	....	$100,000	+$100,000
Accounts Payable	$ 5,328	20,561	+ 15,233
Accruals	2,342	26,030	+ 23,688
Tax Reserve	15,387	52,413	+ 37,026
TOTAL CURRENT LIABILITIES	23,057	199,004	+ 175,947
Reserves	1,808	....	— 1,808
Long Term Debt	12,000	249,154	+ 237,154
Minority Interest	1,270	934	— 336
Preferred Stock	30,387	30,387	....
Common Stock	37,294	109,934	+ 72,640
Surplus	33,800	179,466	+ 145,666
TOTAL LIABILITIES	$139,616	$768,879	+$629,263
WORKING CAPITAL	$ 37,715	$127,485	+$ 89,770
CURRENT RATIO	2.6	1.6	— 1.0

of chlorine, with upward of 30 per cent of the industry's total. Synthetic organic chemicals based on chlorine are finding widespread applications in a great many end products with the result that consumption of the chlorine in chemicals has expanded far more rapidly than experts would have forecast a decade ago.

Continuous developments of new markets for Dow's major plastics explains the upsurge in sales of this promising division. Polystyrene manufactured under the name of Styron has found wide acceptance, necessitating opening of new plants in Connecticut and in California. This thermoplastic molding granule is used in numerous consumer goods both clear and in colors. It is used also in an expanded form as an electric and a thermal insulating material. Another important thermoplastic, polyvinyl chloride, has been added to the company's line and plans have been made for producing polyethylene products. Demand for styrene-butadiene latexes for use in interior paints continue to expand. A plastic wrapping material for meats and cheeses known as Saran Film is finding ever increasing markets.

Sales of magnesium products approximated $60 million in the latest fiscal year for a ten-fold increase in four years. Progress stems primarily from wider adoption of the light metal in military equipment, but larger quantities are being used in commercial applications as well. Further expansion of facilities in this division is contemplated in anticipation of prolonged growth.

Dow management is optimistic over prospects for agricultural chemicals in meeting requirements of farmers striving for a higher return on their crops. Soil fumigants are being used in larger quantities every year, it is pointed out, and their future is regarded as promising. Grain fumigants have gained in volume as their effectiveness has been proved and as the need for the product has grown with expansion of grain storage facilities. Generally speaking, greater reliance is expected to be placed on agricultural chemicals as acreage utilized is reduced.

From this brief commentary on a variety of Dow's major products, it may be noted that many markets are served. Dependence on any single industry or segment of the population is limited. Industrial chemicals are utilized in almost every imaginable industrial application, while plastics find outlets in consumer goods lines, in paints and in packaging. In other words, the products are so varied and so essential to every day activities that they combine to create an exceptionally stable base. In this respect, the company differs from many of its competitors manufacturing general chemicals in that a higher degree of diversification is obtained.

Comparison of Sales Records

Perhaps this situation goes far toward explaining the fact that in the last decade Dow's sales have grown approximately 258 per cent, while Monsanto's volume has expanded 225 per cent, du Pont—ranking first in total sales—has climbed 163 per cent and Rohm & Haas 113 per cent. Volume of American Cyanamid and of Union Carbide & Carbon has slightly more than doubled in the decade. Allied Chemical's sales growth has been slowest among the major companies with an increase of some 21 per cent in the last ten years. Mathieson's gains have been distorted by mergers.

Outstanding progress (*Please turn to page* 159)

Long Term Operating and Earnings Record

	Net Sales (Millions)	Operating Income (Millions)	Operating Margin	Income Taxes (Millions)	Net Income (Millions)	Net Profit Margin	Net Per Share	Div. Per Share	Percent Earned on Invested Capital	Price Range High Low
1953*	$430.3	$ 89.4	20.7%	$51.2	$35.8	8.3%	$1.58	$1.00[1]	11.2%	43⅝-33¼[2]
1952	407.1	106.9	26.2	73.7	35.8	8.8	1.65	.80[1]	12.3	44¼-33½
1951	339.5	107.5	31.6	68.2	41.3	12.1	2.00	.80[1]	16.2	39¾-25⅞
1950	220.8	51.1	23.1	19.5	33.8	15.3	1.80	.53[1]	15.4	27¾-18
1949	200.3	42.4	21.2	15.8	25.2	12.6	1.48	.33[1]	13.3	19 -14¼
1948	170.6	33.1	19.4	12.4	21.0	12.3	1.24	.33	12.1	16¾-10⅞
1947	130.4	19.8	15.2	8.2	12.7	9.7	.76	.25	10.6	15 -12½
1946	101.8	8.7	8.6	3.2	6.9	6.8	.38	.25	6.1	16 -11⅞
1945	124.5	22.1	17.7	16.2	8.7	7.0	.50	.25	8.4	13⅞-10¼
1944	120.4	19.9	16.5	14.0	8.5	7.1	.52	.25	8.4	10⅞- 9½
10 Year Average 1944-1953	$224.5	$ 50.0	20.0%	$28.2	$22.9	10.0%	$1.19	$ .47	11.4%	44¼- 9½

*—Fiscal year ended May 31. [1]—Plus stock. [2]—To October 13, 1953.
[3]—Company earned $.43 per share for the first fiscal quarter ended 8/31/53.

Income Opportunities in

SOUND BONDS

By JOHN D. C. WELDON

This article has been designed especially to assist investors to increase their investment yields from bonds. While the market, especially in government and tax-exempt issues, has regained considerable strength in recent weeks there are, nevertheless, a numbr of sound opportunities still available to afford quite satisfactory yields. Fifteen such issues are listed in the accompanying table to yield from 4¾% to nearly 5½%, depending on grade. They average about 5%. As investors will recognize this is a favorable yield for good-grade bonds. Most of these bonds are still selling at considerable discounts from highs in recent years and their prices are now quite attractive for serious-minded investors.

With interest rates more stable and, in fact, slightly easing off, a much firmer foundation for bond prices now exists than during the late spring and early summer months when the sudden and rather violent increase in the interest rates of new government issues, played havoc with prices. As an indication of the change which has occurred in recent weeks, government 2½s of 1967-72 which sold just below 90 during the break last summer, are now back to over 95.

The future of the bond market during the next year obviously hangs on the trend of interest rates. Apparently, Treasury policies in accord with the Federal Reserve, call for a steady hand on the rate and extreme fluctuations are not anticipated. On this premise, it would seem that the bond market faces a more stable period than has been true for a considerable period.

The fifteen bonds listed have been selected out of a large number and are especially suitable for investors who do not wish to limit themselves to the triple-A which still yields not much over 3½%. A brief description of several of the issues listed is given herewith.

Gulf, Mobile & Ohio Railroad General Mortgage Income, Series "A" 4s of 2044, currently selling around 75½, yield 5.30% to maturity. They are callable as a whole or in part, or for sinking and retirement fund at 100. Although interest is payable on this issue only to the extent earned, current earnings amply protect contingent requirements and even under adverse operating conditions the road should have no difficulty in covering interest requirements. Gulf, Mobile & Ohio serves a territory that has grown rapidly in the last decade and traffic over its lines consist of well diversified freight. It is one of the first major roads to have become completely dieselized and ranks among the most efficiently operated rail lines in the country. Since 1949, net revenues have increased from $17.3 million to $27.8 million last year with fixed charges and contingent interest requirements rising from 2.85 times in 1949, to a record high of 5.41 times last year, and in all likelihood setting a new record in 1953. Gulf, Mobile & Ohio's financial position has strengthened over the same period and its favroable traffic outlook should enable the road to continue to cover fixed and contingent charges by comfortable margins in the future.

New York & Harlem Railroad's Mortgage 4s of 2043, currently sell around 83¾, returning a yield to maturity of 4.76%. These bonds are secured by a lien, subject to the road's refunding (now first) 3½s, due in 2000, on 127.36 miles of main line from N. Y. City to Chatham, N. Y., and branches; also Grand Central Station and certain other property. The road is operated (*Please turn to page* 158)

15 Sound Bonds for Income

	Recent Price	Yield to Maturity
Atlas Plywood Corp., S.F. debentures 5s, 1968	100	5.00%
Chesapeake & Ohio Ry. Co., R. & I. 2.40s, 1956	95	4.60
Chicago Great Western Ry. Co., 1st "A" 4s, 1988	78½	5.33
Cleveland, Cincinnati, Chicago & St. Louis Ry. Co., Gen. 5s, Series B, 1993	100	5.00
Denver & Rio Grande Western R.R. o., Income "A" 4½s, 2018	91⅛	4.96
Food Fair Stores debenture 3s, 1965	85	4.68
Gulf, Mobile & Ohio R.R. Co., Income "B" 4s, 2044	75½	5.30
Michigan Central R.R. Co., R. & I. "C" 4½s, 1979	91	5.12
New York & Harlem R.R. Co., Mtg. "A" 4s, 2043	83¾	4.76
Northeastern Water Co., S.F. Coll. 5s, 1968	100½	4.83
Northern Pacific Ry. Co., R. & I. "C" 5s, 2047	101½	4.92
Pittsburgh & West Va. Ry. Co., 1st "B" 4½s, 1959	97⅛	5.10
Southern Ry. Co. (Memphis Div.) 1st 5s, 1996	103½	4.80
Tennessee Gas Transmission Co. debenture 5s, 1973	103⅛	4.72
Western Union Telegraph Co. 5s, 1960	101⅝	4.70

FOR PROFIT AND INCOME

November

For November as a whole, the long-term market record indicates no particular seasonal bias either way. In the long history of the Dow averages there have been net November advances for industrials in 31 years, declines in 24 years. In the case of the rail average, there were November gains in 26 years, declines in 29 years. The December pattern has been definitely more favorable, with the industrial average up on the month as a whole in 40 years, down in 16; and with rails up in 33 years, down in 23.

Tax Selling

If past behavior prevails, the recent market recovery will top out by or before mid-November, there will be a sell-off running into December, and that will be followed by an upswing at least into early January. Tax selling is the apparent reason for periods of weakness between early November and varying dates in December in the great majority of past years. The highs made by the industrial average in the last six weeks of the year have been more than 5% above the highs of the first half of November in only five years since 1920; and on average have bettered early-November highs by about 1%. On the other hand, the lows recorded in the final six weeks, usually between December 1 and Christmas, have been under early November highs in all except two years since 1920. On average, they were 8% under highs made between November 1 and 15. Last year was one of the two exceptions to the rule, with a December high about 7% above, and a December low about 3% above, the high of November 1-15.

Year-End Rally

Measured from December lows to highs made in the first half of January, there have been year-end rises in all except one year since 1920; and the one failure (in 1926) was by a nominal margin. While varying hugely, the average such rise was about 9%. Measured from November closing levels, to the early-January high, there have been advances in 30 of the 33 years since 1920, declines in 2, no change in one. Because of variations in timing and scope of movement, as well as wide divergence in year-end behavior of individual stocks, the historical patterns cited have more casual interest than practical significance for investors.

Groups

Reflecting the rising trend of the bond market, making stock yields relatively more attractive on a comparative basis, utilities and most high-grade (defensive-type) income stocks are now much closer to the year's highs than the lows. At the same time, however, there has been a mild revival of speculative confidence in some cyclical-type stock groups, with better than average rallying tendencies therein at this writing, including steels, aircrafts, metal fabricating issues, automobiles, rail equipments, paper stocks, tire issues and some machinery issues.

Stocks

Stocks performing exceptionally well—some at new 1953 highs at this writing, others close to their previous best levels of the

INCREASES SHOWN IN RECENT EARNINGS REPORTS

		1953	1952
Libby-Owens-Ford Glass	Sept. 30 Quar.	$ .96	$ .69
United Merchants & Mfg.	Year June 30	1.98	1.49
Capital Airlines	8 mos. Aug. 31	1.29	.73
Grand Union Co.	Aug. 29 Quar.	.75	.50
Southern Railway	8 mos. Aug. 31	7.45	4.77
Amer. Gas & Electric	12 mos. Aug. 31	2.53	2.21
National Department Stores	12 mos. July 31	1.18	.77
Sheaffer (W. A.) Pen Co.	Aug. 31 Quar.	.34	.19
Texas Utilities Co.	12 mos. Aug. 31	3.25	2.95
Warren Petroleum Corp.	Year June 30	6.02	4.80

year—include American Gas & Electric, Consumer Power, General Electric, Douglas Aircraft, General Telephone, Gillette, Minneapolis-Honeywell, Sutherland Paper, Pfizer, Borden and United Aircraft.

Southern Utilities

Growth of demand for home air conditioning is by no means localized, but will be relatively strongest in the warm southern states. That is so of unit room coolers, and more so of full (central-system) equipment in new homes. Led by General Electric, with other makers not far behind, mass-production of heat pumps is ahead. Using no fuel, the heat pump, utilizing variations between air temperature within a structure and outside temperature of air, well water or sub-soil, is the last word in efficient heating-cooling equipment. Present initial installed cost is high at $3,500 to $4,500, but can be brought down substantally as output increases. The big advantage is operating economy, via elimination of fuel for heating. The majority of the less than 5,000 heat pumps now in use are in the South, where the need is greatest and the natural conditions required for efficient operation are most favorable. Expansion of demand will be gradual, but a General Electric official has predicted that by 1960, or seven years hence, some 200,000 heat pumps will be sold annually. Because of heavy use of electricity, growth of air conditioning in every form will be a boon to utilities. For instance, a unit room cooler uses roughly three times as much current on an annual basis as a refrigerator, oil burner, dishwasher or TV set. If the increase in such units in use by 1960 is 10,000,000, as some air-conditioning authorities expect, the required power load would approximate that for not far from 30,000,000 refrigerators. A heat pump dwarfs all other appliances in power use, consuming about 36 times more electricity than a refrigerator. Thus, if sales reach 200,000 a year, that is equal in power load to over 7,000,000 refrigerators. That is why utilities, especially in the South, are keenly interested in fostering growing use of this device. In addition to the air-conditioning angle, many of these companies are also favored by above-average population and economic growth in their territories, and by relatively satisfactory local rate-regulation policies. Some of the best of the southern utilities for long-term investment are Florida Power & Light, Southern Company, Carolina Power & Light, Gulf States Utilities, Middle South Utilities, Central & South West and Houston Lighting & Power.

Farm Equipments

The farm equipment stocks have had a broad decline, reflecting lower farm income, lower sales and lower profits. No basis is apparent for much more than technical rallies any time soon. But, at least in the case of the better-grade issues such as International Harvester and Deere, the wisdom of selling at present prices may be questionable. Political pressure—as dramatized by the recent special election in Wisconsin to fill a House vacancy—will force the Administration to devise one means or another for maintaining a satisfactory level of farm income. Moreover, agricultural experts argue that the surpluses at least of foodstuffs are temporary; and that clearly indicated population growth will require a long-run increase, rather than decrease, in output thereof. But, of course, that will not solve the surplus problem in 1954 or 1955, given average weather. The farm equipments still have an unsettled period to face for the time being, however, and new purchases can be deferred. Better opportunities are available in other groups.

Oils

On a superficial glance, you might easily over-emphasize the degree of correction that oil stocks have had. True, they have come down sharply—but from a record high level. And the decline from 1953 high to low to date is only a little more than that of the general list, amounting to about 18.7%, against about 17.7% for our weekly index of 300 stocks. At the highs, on an index basis, the oil group was 115% more advanced than the composite index, and it is currently 108% more advanced. Long-term prospects for the oil industry are no doubt good enough to justify a wide differential; but whether as a wide a one as currently prevails may be debatable. On a medium-term view, the industry could easily be more vulnerable than average. It has been over-producing for some time. Moderate cutbacks in crude output and refinery runs have not sufficed to prevent a build-up of inventories. The price structure is soft on the retailing end. This may result in lower "official" prices unless production is vigorously cut. Even moderately mild heating-season weather in nearby months could really "put the fat in the fire". A mild winter in 1948-1949, with resulting inventory unbalance, cut the average gross refinery margin from $1.11 per barrel of crude to 79 cents; and cut industry earnings in 1949 by roughly 30%, compared with a shrinkage of about 21% for corporate profits. Not many weeks ago, when oil prices were being raised, we warned you to keep your fingers crossed. In view of the medium-term uncertainty, we would defer all purchases of oils; and, where large profits are available, especially on issues of companies mainly dependent on refinery results, we would consider taking them.

Comeback

The stock of Gillette, leading maker of safety razors and blades, got up to 71½ in 1929 on earnings (adjusted to present capitalization) of $1.19 a share. Earn-

(*Please turn to page* 161)

DECREASES SHOWN IN RECENT EARNINGS REPORTS

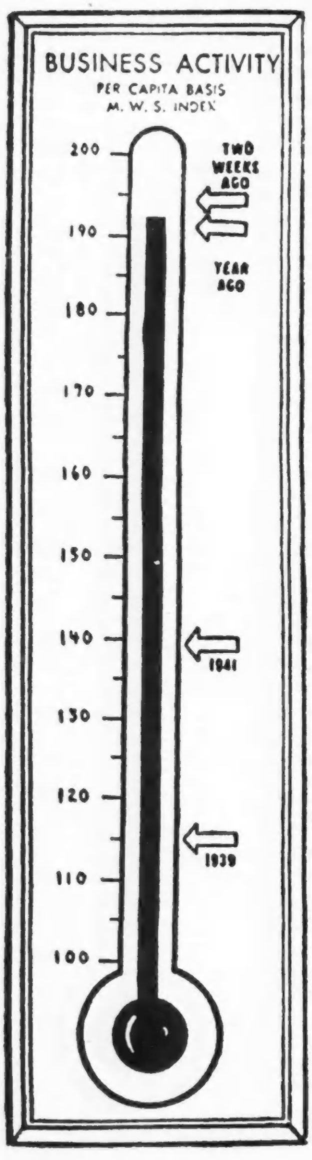
		1953	1952
Transue & Williams Forging	Sept. 30 Quar.	$ .26	$ .41
Barker Bros. Corp.	Sept. 30 Quar.	.25	.53
Sterchi Bros. Stores	August 31 Quar.	.38	.47
General Baking Co.	39 weeks Sept. 26	.33	.80
Kaiser Steel Corp.	Year June 30	2.12	2.52
Consolidated Laundries	12 weeks Sept. 12	.58	.68
United Electric Coal	Year July 31	2.08	2.26
Waukesha Motor Co.	Year July 31	1.69	3.22
Froedtert Corp.	Year July 31	1.33	1.58
Virginian Rwy.	8 mos. Aug. 31	1.93	2.68

The Business Analyst

What's Ahead for Business?

By E. K. A.

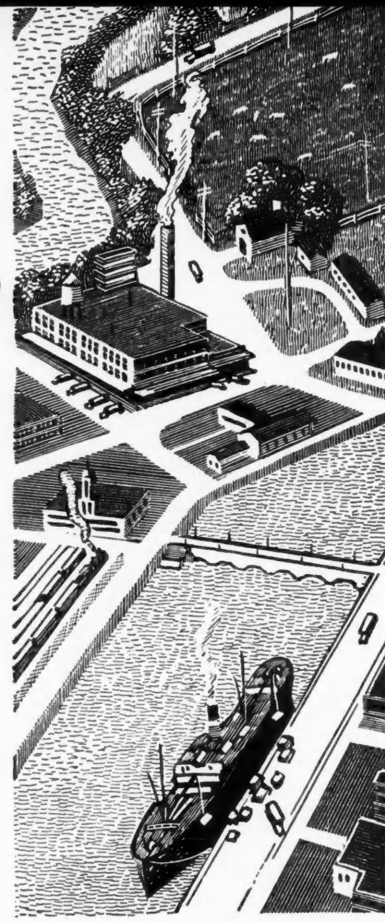
The rather definite prospect for a contraction in inventories, extending throughout practically all lines of business from the manufacturer to the retailer, constitutes one of the unfavorable factors in the general outlook. There is no question about the fact that reduction of inventories will put business in a "healthier" position, once it is accomplished. But, the repercussions of the contraction process are likely to have some effect.



Since the end of 1950, business inventories have increased to the value of approximately $17 billion. A substantial portion of this rise has been due, of course, to the appreciation in prices since the outbreak of the Korean war and the expansion in the defense program. But, while prices now have been relatively stable for many months, the value of inventories has continued to mount. Quite clearly, production has been outstripping consumption.

Measured in relationship to sales and new orders, present record high business inventories are not in imbalance. However, the ratios are not so favorable as a few months back. For, while inventories have continued their long rise, new orders have been slipping since early last Spring while sales have trended downward since the Summer. Manufacturers' backlogs of unfilled orders, while still extremely large, have been contracting slowly for many months and recently have felt the effect of cancellations.

Unfortunately, inventories cannot be brought into line at the first sign of sales contraction. New orders in durable goods peaked out last February but the rise in manufacturers' inventories is only just now being halted. In the soft goods industries, business until recently was fairly well maintained and inventory accumulations in the past few months have been virtually nil. The industrial inventory situation is being complicated by the slippage in retail trade.



The contraction in retail trade, small as it is to date, differentiates the current situation from that of 1948-49. During the 1948-49 "inventory recession," retail trade was not affected. Personal consumption expenditures in 1949 totaled $180.6 billion versus $177.9 billion in 1948. Consumer spending for durable goods and services increased while spending for nondurables contracted slightly. Government spending rose rather sharply from 1948 to 1949, a situation unlikely to exist from 1953 to 1954.

Construction also showed a gain from 1948 to 1949. The present outlook is for a contraction in new housing starts in 1954 of about 20 percent, offset only partially by increased expenditures for commercial and public construction. Automobile sales are expected to dip whereas they showed a gain of over 18 percent in 1949. Only in a few areas, as it appears now, will business in 1954 receive the benefit of support from those lines that were strong in 1949.

From the end of 1948 until the end of 1949, business inventories contracted $7.5 billion. In the second quarter of this year, the increase in business inventories was at an annual rate of $8.8 billion, but the rate of gain slowed down to $5.5 billion in the third quarter. By a year from now, in the opinion of a number of economists, inventories are likely to be contracting at an annual rate of $4 to $5 billion if not more. This would represent a net change from the middle of this year of somewhere between $12 and $14 billion.

Industrial activity registered an overall decline of 8 percent from 1948 to 1949 although the interim dip from the high late in 1948 to the low in 1949 was much sharper. The Gross National Product, well propped by sustaining factors, held almost unchanged at $258.2 billion versus $259.0 billion.

In 1954, the Gross National Product may well be at least $10 billion smaller than the indicated 1953 figure of approximately $370 billion.

The Business Analyst

HIGHLIGHTS

MONEY & CREDIT—Strength in the bond market has persisted thus far in October. In the corporate field further improvement has been noted, helped along by a sparsity of new offerings. The yield of an average of best-grade corporates has fallen again to 3.15% on October 19 from 3.21% two weeks earlier. Treasury obligations—which led the market on the upturn—have been rather mixed of late, which is to be expected after the rapid rise they have had. The long-term thirty year 3¼s gained another ½ point in the two weeks ending October 19 but the Victory 2½s of 1972-1967 lost ¼ point during the same period. At the same time, medium-term Federal obligations like the 2⅜s of 1958 remained virtually unchanged. Short-term funds are plentiful and on October 19 the Treasury's latest offering of 91-day bills was sold at an annual yield of 1.372%, lowest borrowing cost in almost three years.

Tax-exempt securities underwent a test of underlying strength in the week of October 16 when $448.3 million of new issues were put up for sale. Prominent on the list were $150 million of New Jersey Turnpike Authority 3⅜s and $206.2 million of Public Housing Authorities short-term notes. The Turnpikes were a market feature with the issue sold out in two hours and quoted thereafter at a good premium in over-the-counter trading. The vitality of the tax-exempt section of the list was obvious from the fact that yields in the October 16 week dropped further despite the spate of new offerings. Prices of tax-exempts have now recovered to levels prevailing prior to the sharp drop in the bond market last Spring.

Fundamental reasons for the bond market betterment have been the Federal Reserve's credit easing policy coupled with slower demand for credit in the past few months. However, some increase in new issues is in prospect. The Treasury is planning to raise $1½-$2 billion in the near future, via an issue of medium-term length, it is rumored. Also in the offing is the largest corporate issue ever to be marketed, namely, some $625 million of convertible debentures that American Telephone & Telegraph is planning to sell in the not too distant future, with the proceeds to be used for expansion. Issues of this size are going to add quite a bit to the supply of available investments. It should also be remembered that part of the Federal Reserve's buying of Treasuries has probably been with a view to preparing the ground for the Government's current new money needs. If the Central Bank decides that credit easing has gone far enough for the time being, bond prices, which have had a rapid advance, may be vulnerable to some easing.

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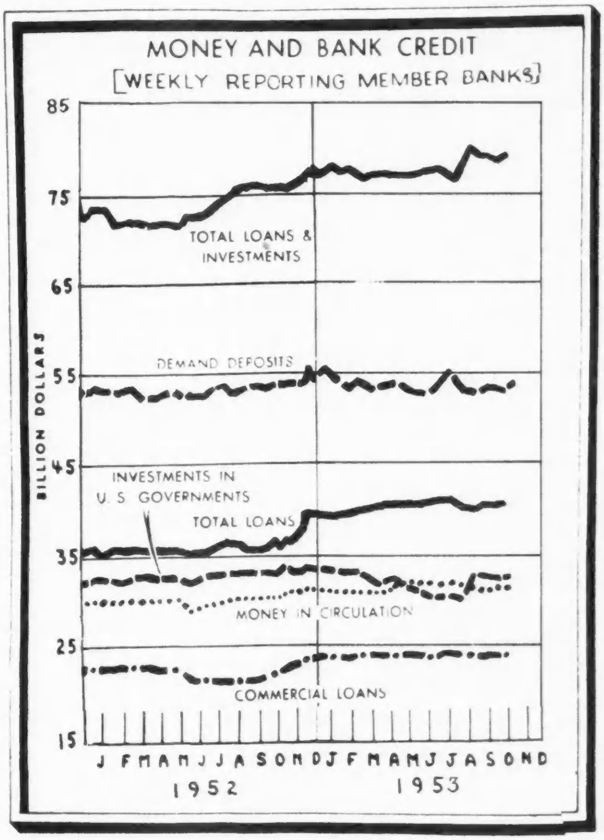
TRADE—There was some increase in consumer buying in the week ending Wednesday, October 14, as seasonal weather stirred interest in apparel items and special promotions awoke shopper demand. The total dollar volume of retail trade topped the corresponding 1952 week by about 3%, according to estimates by Dun & Bradstreet. The Southwest made the best showing with a 5% gain. Demand for food improved somewhat and buying of household goods picked up a bit although still below year-ago levels.

Sales by the nation's department stores were lower in the week ending October 10, falling 5% under the corresponding 1952 week. In the previous week these sales were 3% under year-ago levels.



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INDUSTRY—Industrial output declined a bit further so far in October and the MWS Business Activity Index stood at 193.4 in the week ending October 10, down from 194.5 two weeks earlier. During the period there were declines in output of bituminous coal, electric power and steel. Lumber shipments, and freight car loadings also were lower but there was some improvement in crude oil runs to stills and in paperboard production.

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COMMODITIES—Commodity prices in general were a bit lower in the week ending October 13 and the Bureau of Labor Statistics index of primary market prices fell 0.2% to 110.1% of the 1947-1949 average. The index of farm products was down 0.8% as the result of considerably lower prices for hogs and lambs together with some reduction for most cattle. Meat prices were 2.1% under the preceding week.

(Please turn to the following page)

Essential Statistics

	Date	Latest Wk. or Month	Previous Wk. or Month	Year Ago	Pre-Pearl Harbor*
MILITARY EXPENDITURES—$b (e)	Sept.	4.1	3.8	4.2	1.6
Cumulative from mid-1940	Sept.	522.1	518.0	468.6	13.8
FEDERAL GROSS DEBT—$b	Oct. 14	273.0	272.9	264.8	55.2
MONEY SUPPLY—$b					
Demand Deposits—94 Centers	Oct. 7	53.0	52.8	52.2	26.1
Currency in Circulation	Oct. 14	30.4	30.4	29.6	10.7
BANK DEBITS—(rb3)**					
New York City—$b	Sept.	58.4	51.1	52.3	16.1
344 Other Centers—$b	Sept.	94.3	91.6	88.2	29.0
PERSONAL INCOMES—$b (cd2)	Aug.	287.0	287.5	271.3	102
Salaries and Wages	Aug.	197	197	182	66
Proprietors' Incomes	Aug.	49	50	51	23
Interest and Dividends	Aug.	23	22	21	10
Transfer Payments	Aug.	14	14	13	3
(INCOME FROM AGRICULTURE)	Aug.	17	17	19	10
POPULATION—m (e) (cb)	Sept.	160.2	160.0	157.4	133.8
Non-Institutional, Age 14 & Over	Sept.	111.8	111.6	109.9	101.8
Civilian Labor Force	Sept.	63.6	64.6	64.0	55.6
unemployed	Sept.	1.2	1.2	1.4	3.8
Employed	Sept.	62.3	63.4	62.3	51.8
In Agriculture	Sept.	7.3	7.3	7.5	8.0
Non-Farm	Sept.	55.0	56.1	54.7	43.2
At Work	Sept.	59.6	58.5	59.7	43.8
Weekly Hours	Sept.	40.0	43.1	43.0	42.0
Man-Hours Weekly—b	Sept.	2.38	2.52	2.57	1.82
EMPLOYEES, Non-Farm—m (lb)	Aug.	49.4	49.2	48.2	37.5
Government	Aug.	6.5	6.5	6.4	4.8
Factory	Aug.	13.8	13.6	13.1	11.7
Weekly Hours	Aug.	40.5	40.4	40.5	40.4
Hourly Wage (cents)	Aug.	177.0	177.0	166.0	77.3
Weekly Wage ($)	Aug.	71.69	71.51	67.23	21.33
PRICES—Wholesale (lb2)	Oct. 13	110.1	110.3	111.1	66.9
Retail (cd)	July	210.2	209.7	211.8	116.2
COST OF LIVING (lb2)	Aug.	115.0	114.7	114.3	65.9
Food	Aug.	114.1	113.8	116.6	64.9
Clothing	Aug.	104.3	104.4	105.1	89.7
Rent	Aug.	125.1	123.8	118.2	59.5
RETAIL TRADE—$b**					
Retail Store Sales (cd)	Aug.	14.1	14.5	13.4	4.7
Durable Goods	Aug.	4.9	5.1	4.2	1.1
Non-Durable Goods	Aug.	9.2	9.4	9.2	3.6
Dep't Store Sales (mrb)	Aug.	0.86	0.86	0.84	0.34
Consumer Credit, End Mo. (rb2)	Aug.	27.4	27.2	23.0	9.0
MANUFACTURERS'					
New Orders—$b (cd) Total **	Aug.	22.8	24.4	21.9	14.6
Durable Goods	Aug.	9.8	11.1	10.0	7.1
Non-Durable Goods	Aug.	12.9	13.3	11.9	7.5
Shipments—$b (cd)—Total**	Aug.	25.5	26.5	21.9	8.3
Durable Goods	Aug.	12.7	13.1	10.4	4.1
Non-Durable Goods	Aug.	12.8	13.4	11.5	4.2
BUSINESS INVENTORIES, End Mo.**					
Total—$b (cd)	Aug.	78.8	78.3	72.7	28.6
Manufacturers'	Aug.	46.2	45.8	43.1	16.4
Wholesalers'	Aug.	10.4	10.4	9.9	4.1
Retailers'	Aug.	22.2	22.1	19.7	8.1
Dept. Store Stocks (mrb)	Aug.	2.6	2.6	2.3	1.1
BUSINESS ACTIVITY—1—pc	Oct. 10	193.4	194.2	192.0	141.8
(M. W. S.)—1—np	Oct. 10	237.7	238.6	228.6	146.5

PRESENT POSITION AND OUTLOOK

(Continued from page 149)
Despite this drop and lower prices for some fish, the index of processed foods fell only 0.2%. The index of all commodities other than farm and food products remained unchanged. Lower prices for hides, burlap, tin and crude rubber were counterbalanced by higher levels for scrap copper, kerosene and fuel oil.

The MWS Index of Spot Prices for 14 raw materials fell to 147.9 in the week ending October 166, a new low since the outbreak of the Korean conflict in June, 1950.

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Expenditures for **NEW CONSTRUCTION** totalled $3,310 million in September, slightly under August's $3,323 million but 5% ahead of September, 1952, the Commerce and Labor Departments have announced in a joint report. Private expenditures for new construction came to $2,185 million last month or 7.7% ahead of a year ago with private residential building equalling $1,087 million. Commercial construction of $183 million showed the biggest year-to-year gain—one of 81.2%, while utilities gained 13.4% and railroads 12.8%. Industrial construction was valued at $180 million or 5.3% under the corresponding 1952 month. Public construction in September came to $1,125 million, just about the same as a year ago. Residential building by public authorities amounted to only $47 million which was 13.6% under a year ago while highway construction at $400 million was up 5.3%.

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Shipments of **REFINED COPPER** to domestic fabricators declined to 104,886 tons in September from 106,985 tons in August although the average per calendar day was up slightly. Production of refined copper in this country rose to 114,7660 tons from 108,974 the month before and 98,930 tons a year ago. Stocks of copper held by U. S. producers stood at 72,907 tons on September 30 which was below the 78,825 tons on hand the month before. However, inventories held outside this country have been rising steadily and now stand at 236,336 tons as negotiations continue in Washington for the sale of Chile's unsold stocks. A year ago, stocks of copper outside this country amounted to 157,450 tons.

* * *

CASH DIVIDEND PAYMENTS by corporations issuing public reports amounted to $1,235 million in September, a 6% increase over the similar 1952 month, the Commerce Department has reported. This brought total payments for the first nine

and Trends

	Date	Latest Wk. or Month	Previous Wk. or Month	Year Ago	Pre-Pearl Harbor*
INDUSTRIAL PROD.—1 np (rb)**	Aug.	236	232	215	174
Mining	Aug.	170	165	156	133
Durable Goods Mfr.	Aug.	311	311	267	220
Non-Durable Goods Mfr.	Aug.	197	191	191	151
CARLOADINGS—t—Total	Oct. 10	804	813	843	833
Misc. Freight	Oct. 10	394	400	416	379
Mdse. L. C. L.	Oct. 10	72	72	76	1,566
Grain	Oct. 10	53	55	55	43
ELEC. POWER Output (Kw.H.) m	Oct. 10	8,307	8,414	7,698	3,266
SOFT COAL, Prod. (st) m	Oct. 10	9.3	9.2	9.1	10.8
Cumulative from Jan. 1	Oct. 10	352.4	343.1	362.5	44.6
Stocks, End Mo.	Aug.	77.9	74.8	81.2	61.8
PETROLEUM—(bbls.) m					
Crude Output, Daily	Oct. 10	6.3	6.4	6.5	4.1
Gasoline Stocks	Oct. 10	143	144	121	86
Fuel Oil Stocks	Oct. 10	53	52	54	94
Heating Oil Stocks	Oct. 10	129	127	120	55
LUMBER, Prod.—(bd. ft.) m	Oct. 10	238	247	254	632
Stocks, End Mo. (bd. ft.) b	Aug.	8.1	7.9	8.3	7.9
STEEL INGOT PROD. (st) m	Sept.	8.9	9.4	9.1	94
Cumulative from Jan. 1	Sept.	85.5	76.6	64.2	74.7
ENGINEERING CONSTRUCTION AWARDS—$m (en)	Oct. 15	269	170	333	94
Cumulative from Jan. 1	Oct. 15	12,218	11,949	13,165	5,692
MISCELLANEOUS					
Paperboard, New Orders (st)t	Oct. 10	232	371	237	165
Cigarettes, Domestic Sales—b	July	30	33	34	17
Do., Cigars—m	July	490	502	468	543
Do., Manufactured Tobacco (lbs.)m	July	16	18	16	28

PRESENT POSITION AND OUTLOOK

months of this year to $6,045 million, a 4.5% gain over the corresponding period of last year. During the first nine months of 1953 manufacturing companies paid out $3,235 million in dividends or 1.5% above last year while dividends by nonmanufacturing concerns were up 8.0%. Best year-to-year gain among manufacturing industries was shown by transportation equipment with a 15.6% increase. Dividends by manufacturers of electrical machinery were up 3.5% and oil refining 2.3%. In non-manufacturing, gas companies increased dividend payments by 22.5%, finance companies by 8.8% and railroads by 11.6%. Mining company dividends were 3.2% under last year.

* * *

Deliveries of **NEW FREIGHT CARS** in September came to 5,706 units which compares with 5,557 in August and 3,762 in September 1952, according to a joint report by the American Railway Car Institute and the Association of American Railroads. New orders were received for 3,914 freight cars in September, unchanged from the month before but up from the 2,999 freight cars ordered a year ago. With new orders below deliveries, the backlog of orders on hand on October 1 stood at 42,198 cars, a drop of 3,537 from the September 1 level. A year ago there were orders on the books for 80,296 freight cars.

b—Billions. cb—Census Bureau. cd—Commerce Dept. cd2—Commerce Dept., seasonally adjusted monthly totals at annual rate, before taxes. cdlb—Commerce Dept. (1935-9—100), using Labor Bureau and other data. e—Estimated. en—Engineering News-Record. I—Seasonally adjusted index (1935-9—100). lb—Labor Bureau. lb2—Labor Bureau (1947-9—100). lb3—Labor Bureau (1935-9—100). lt—Long tons. m—Millions. mpt—At mills, publishers and in transit. mrb—Magazine of Wall Street, using Federal Reserve Board Data. np—Without compensation for population growth. pc—Per capita basis. rb—Federal Reserve Board. rb2—Federal Reserve Board, total consumer credit. rb3—Federal Reserve Bank of N. Y.—1941 data is for 274 cnters. st—Short tons. t—Thousands. *—1941; November, or week ended December 6. **—Seasonally adjusted.

THE MAGAZINE OF WALL STREET COMMON STOCK INDEXES

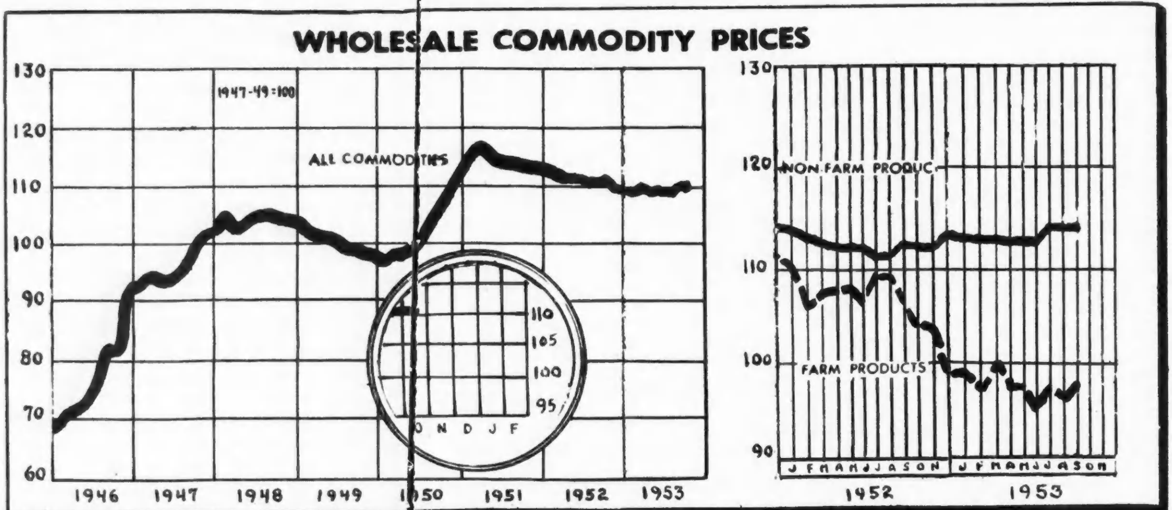
No. of Issues (1925 Cl.—100)	1953 Range High	1953 Range Low	1953 Oct. 9	1953 Oct. 16
300 COMBINED AVERAGE	215.5	177.2	183.3	187.3
4 Agricultural Implements	263.3	186.7	189.2	199.4
10 Aircraft ('27 Cl.—100)	415.6	330.3	365.9	376.5
7 Airlines ('27 Cl.—100)	693.9	499.1	512.1	531.5
7 Amusement	95.5	76.4	76.4	77.3
10 Automobile Accessories	289.4	213.8	224.2	226.8
10 Automobiles	49.4	39.0	40.4	40.9
3 Baking ('26 Cl.—100)	28.0	23.7	24.9	23.7Z
3 Business Machines	377.4	311.4	326.1	329.8
2 Bus Lines ('26 Cl.—100)	207.6	170.2	204.2	207.6
6 Chemicals	396.9	337.9	249.7	361.5
3 Coal Mining	15.4	10.3	10.4	10.9
4 Communications	69.3	58.6	60.5	63.6
9 Construction	72.3	57.9	58.6	60.6
7 Containers	519.4	456.9	476.1	485.7
9 Copper & Brass	175.4	125.3	133.1	139.4
2 Dairy Products	99.6	82.3	99.6	99.6
5 Department Stores	63.2	55.3	57.7	58.3
5 Drugs & Toilet Articles	235.2	203.8	215.0	219.5
2 Finance Companies	410.0	341.8	366.2	374.3
7 Food Brands	200.4	185.0	188.8	188.8
2 Food Stores	125.9	113.0	125.9	127.1
3 Furnishings	79.2	59.6	59.6	60.3
4 Gold Mining	760.0	535.3	561.8	535.3Z

(Nov. 14, 1936, Cl.—100)	High	Low	1953 Oct. 9	1953 Oct. 16
100 HIGH PRICED STOCKS	133.5	114.4	118.1	120.9
100 LOW PRICED STOCKS	260.5	203.7	212.1	215.7
4 Investment Trusts	112.7	93.1	94.2	97.5
3 Liquor ('27 Cl.—100)	967.8	811.1	829.5	857.2
11 Machinery	240.6	181.0	190.2	197.0
3 Mail Order	128.6	101.0	104.6	107.0
3 Meat Packing	101.7	78.7	84.0	84.0
10 Metals, Miscellaneous	284.5	198.4	198.4	203.6
4 Paper	474.8	394.9	412.6	434.8
24 Petroleum	463.4	376.5	381.1	390.2
22 Public Utilities	194.4	173.8	186.9	188.8
8 Radio & TV ('27 Cl.—100)	36.9	29.7	31.5	31.9
8 Railroad Equipment	64.1	49.1	50.9	52.1
22 Railroads	53.2	41.8	42.3	43.8
3 Realty	51.5	42.3	45.3	44.7
3 Shipbuilding	269.9	228.7	265.3	269.9
3 Soft Drinks	407.5	339.0	359.5	362.9
11 Steel & Iron	151.4	122.8	125.7	134.2
3 Sugar	59.8	47.1	48.3	48.9
2 Sulphur	625.9	525.5	531.5	525.5
5 Textiles	162.2	108.0	108.0	109.6
3 Tires & Rubber	89.7	70.4	74.6	77.9
5 Tobacco	105.2	90.8	100.7	101.6
2 Variety Stores	319.5	291.8	294.9	294.9
16 Unclassified ('49 Cl.—100)	125.7	97.0	99.4	102.9

Z—New Low for 1953.

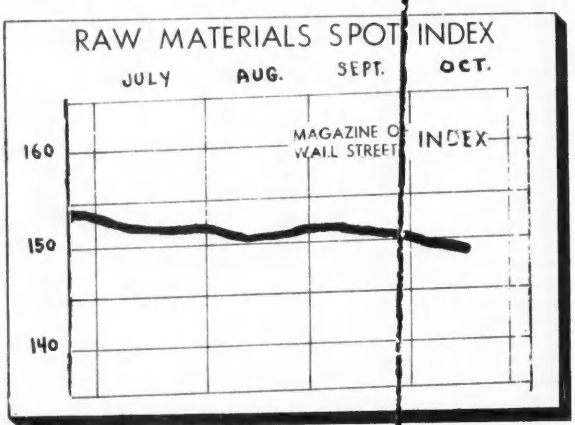
Trend of Commodities

Commodity futures have improved in the two weeks ending October 19 and the Dow-Jones Commodity Futures Index rose 3.02 points during the period to close at 156.82. There is a growing feeling that recent political winds may impel the Administration to advocate continued high support levels on basic farm products when the present law expires. Wheat has been strong and the May future gained 6 cents in the two weeks ending October 19 to close at 200⅛. Movement of the grain into the loan has picked up and poor seeding conditions in some sections of the wheat belt may prove to be detrimental to the new crop. The Department of Agriculture has announced that the 1954 crop will be supported at a national average of $2.20 a bushel which is equivalent to approximately $2.43 in Chicago. This compares with a closing price of $1.95¾ for the new crop July option. May corn gained 4¾ cents in the period under review to close at 151 on October 19, the rally taking place in the face of heavy marketings. The official crop estimate as of October 1, forecast a 3,196,000,000 bushel crop, a 20 million bushel decrease from the forecast of the month before. Corn stocks on the farm are large but the quality of the crop is good and most of it can qualify under the Government support program. It is expected that large amounts will go into the loan which is well above current prices for corn. March cotton gained 19 points in the fortnight to close at 33.21 on October 19. The Secretary of Agriculture has set next year's cotton acreage allotment at 17,910,000 acres, which, on the basis of average yields in recent years, would result in a 10 million bale crop.



U. S. DEPARTMENT OF LABOR INDEX OF 28 BASIC COMMODITIES
Spot Market Prices—1947-1949, equals 100

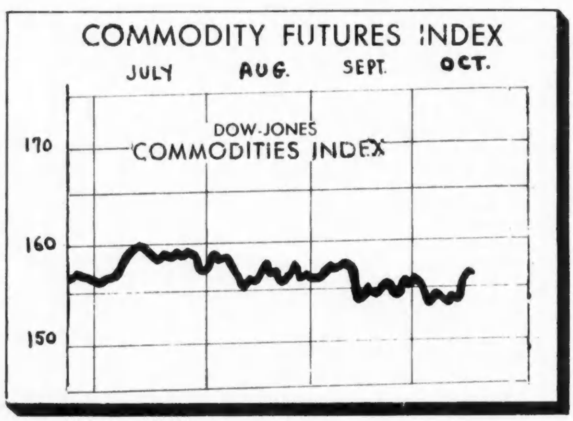
	Date Oct. 19	2 Wks. Ago	3 Mos. Ago	1 Yr. Ago	Dec. 6 1941
22 Commodity Index	86.1	85.6	88.8	92.3	53.0
9 Foodstuffs	94.6	93.5	92.6	89.4	46.1
3 Raw Industrial	80.6	80.4	86.1	94.2	58.3
5 Metals	85.9	85.5	96.1	106.8	54.6
4 Textiles	87.5	87.2	90.3	98.4	56.3
4 Fats & Oils	67.2	64.2	58.3	59.7	55.6



14 Raw Materials, 1923-25 Average equals 100

Aug. 26, 1939—63.0 Dec. 6, 1941—85.0

	1953	1952	1951	1945	1941	1939	1938	1937
High	162.2	181.2	215.4	111.7	88.[illegible]	67.9	57.7	86.6
Low	147.9	160.0	176.4	98.6	58.[illegible]	48.9	47.3	54.6



Average 1924-26 equals 100

	1953	1952	1951	1945	1941	1939	1938	1937
High	170.1	192.5	214.5	95.8	74.3	78.3	65.8	93.8
Low	153.8	168.3	174.8	83.6	58.7	61.6	57.5	64.7

Keeping Abreast of Industrial • and Company News •

A new grey-colored safety glass for television cabinet protective windows, designed to meet the needs of larger picture tube manufacture as well as to provide exceptional black and white contrast, has been developed by the **PITTSBURGH PLATE GLASS CO.** This new product, to be known as Teleglas Duolite, is manufactured on the same principle as automobile safety glass—two layers of glass with an in-between lamination of vinyl plastic. The color, however, is in the glass itself, and not in the plastic, permitting the glass to provide complete uniformity and stability of color.

The Venezuelan government has awarded **WESTINGHOUSE ELECTRIC CORP.**, a contract for 12 fully-automatic elevators for installation in the new North Tower Building in Caracas. These elevators virtually "think for themselves," requiring neither car operators nor lobby dispatchers. The cars will be equipped with an automatic traffic pattern control system which analyzes building traffic requirements and coordinates service to meet varying rush-hour and off-hour traffic conditions. Other features are weight-load devices to prevent overloading, and safety-edge doors that reopen immediately on contact with a passenger entering or leaving the car.

Lufthansa, the new German airline, has given **CONSOLIDATED VULTEE AIRCRAFT CORP.**, an order for four Convair-Liner 340 transports. The contract covering this purchase calls for the optional purchase by the German company of seven additional transports. Delivery of the first of the twin-engine Convairs on the order scheduled for early 1954.

One of the chief advantages of two-way radio communication for railroads is that way-station operators and dispatchers—taking their cues from the main line radio tower control—can talk directly with train crews instead, as heretofore, being able only to "telegraph ahead" a message to be picked up when the train reached the next message point, causing delays and slowing the train runs. A "train-to-wayside" communication system gives the dispatcher and the train crew instant, reliable voice contact anywhere enroute. The Bendix Radio Communications division of **BENDIX AVIATION CORP.**, reports that more than 45 major railroads in the U. S., are now using that company's radio communications, the first permanent Bendix system being installed on the **BALTIMORE & OHIO** in 1945.

Passengers on **TRANS WORLD AIRLINES'** transcontinental non-stop service, inaugurated two weeks ago, will make the flight from Los Angeles to New York in eight hours. The new TWA non-stop service is the fastest ever offered the traveling public on transcontinental U. S. routes under regular standard transcontinental air fare. TWA is using high-speed Super Constellations for these flights, and offers a choice of berths or seats for reservation. Berth passengers may have breakfast in bed if they so desire.

GENERAL MOTORS CORP., is once again turning out Hydra-Matic transmissions. The first units came off the assembly line on October 19 at the transmission division's Riopelle Street plant which was put into use for transmission production following the fire that destroyed the Livonia plant last August. Initial production of Hydra-Matics at the Riopelle plant is scheduled to reach 1,200 per day in November. GM hopes to begin building Hydra-Matics in limited quantities at Willow Run sometime in November and it is expected that when this plant returns to volume production, it will absorb all of the approximately 9,000 hourly workers employed by the transmission division at the time of the Livonia fire.

COMMONWEALTH EDISON CO., proposes to create a separate corporation to own and operate the gas properties of its Public Service Co. Division, and expects to make application to the Illinois Commerce Commission for the necessary authority in the near future. The company believes that separation of the gas and electric properties will improve the effectiveness of operations and create a more competitive situation in the best interests of customers and employees. The new gas company will be incorporated as the Northern Illinois Gas Co., and all of the stock would be owned by Commonwealth Edison. Ultimately, it is expected that some program will be worked out to effect a separation of the stock ownership of the proposed new gas company. One plan under consideration is to distribute, over a period of years, the stock of the gas company to Commonwealth Edison's common stockholders.

A new clothes dryer that will also sprinkle dry clothes for ironing is announced by the home laundry equipment department of **GENERAL ELECTRIC CORP.** From four to six pounds of dry clothes can be sprinkled for ironing within 30 minutes by means of a drum-width, metal sprinkling cylinder, filled with water and inserted into special sockets in the dryer drum. The dryer also has an ozone lamp which adds oxygen to the air, giving clothes a fresh, outdoor aroma.

A new, completely tubeless hearing aid has been introduced by **ZENITH RADIO CORP.** Utilizing a perfected transistor, the new instrument uses no "B" batteries, and operates, it is said, for a month on a simple, little 15¢ dry battery available in any 5 and 10¢ store.

Answers to Inquiries

The Personal Service Department of THE MAGAZINE OF WALL STREET *will* answer by mail or telegram, a reasonable number of inquiries on any listed securities in which you may be interested or on the standing and reliability of your broker. This service in conjunction with your subscription should represent thousands of dollars in value to you. It is subject only to the following conditions:

1. Give all necessary facts, but be brief.
2. Confine your requests to *three listed securities* at reasonable intervals.
3. No inquiry will be answered which does not enclose *stamped, self-addressed envelope.*
4. No inquiry will be answered which is mailed in our postpaid reply envelope.
5. Special rates upon request for those requiring additional service.

Kaiser Aluminum & Chemical Corporation

"As recent earnings of aluminum and and various other corporations reflect accelerated amortization, please furnish recent earnings of Kaiser Aluminum & Chemical Corporation also data on their major expansion program."

T. S., Palo Alto, California

Kaiser Aluminum & Chemical Corporation reported record sales of $182,653,000 for the fiscal year ended May 31, 1953—a 29% increase over the previous year.

Partially reflecting more than a four-fold increase in accelerated amortization, net earnings were $6,571,000, equivalent after preferred dividends to $1.56 per common share, compared with $11,492,000 or $3.09 per common share for the previous fiscal year.

Conforming with the accounting practice generally followed by American companies, the corporation provided during the fiscal year total depreciation, depletion and amortization of $20,407,000, of which $10,819,000 was amortization in excess of normal write-off on new plants and equipment, allowed under Certificates of Necessity for Federal income tax purposes.

If Kaiser Aluminum had adopted the method recommended by the American Institute of Accountants, it could have depreciated its new facilities at normal rates and set aside an appropriate reserve for income tax payable after the five-year amortization period. If this had been done, according to the firm's accountants, net income for the fiscal year ended May 31, 1953, would have totalled $11,765,000, or $3.00 per common share.

Major progress in the expansion program was made with shipments of bauxite from the corporation's deposits in Jamaica to its expanded and modified Baton Rouge Refining plant and with the near completion of the large aluminum reduction plant near New Orleans. Mill products were further diversified. Expenditures for capital improvements made during the fiscal year totalled $103,872,000.

Consumer acceptance and designer preference for aluminum in the building products field has been pronounced. One of the brightest success stories in this field has been the aluminum window, which, in 1950, accounted for four out of ten window metals manufactured. The use of aluminum in the electrical field has made rapid growth in the post-war period.

While consumption of aluminum in the automotive field is about double that of the pre-war rate, the future in this application is still ahead. Aluminum foil has found a ready market in industrial and household uses, and perhaps its greatest growth has been and will continue to be in the food container market. Production and sale of industrial chemicals and refractories during the year reached new highs.

Dividends in 1952 were $1.30 plus 5% in stock. Cash dividends thus far in 1953 have been 97½ cents plus 5% in stock.

United Merchants & Manufacturers

"Please furnish information regarding United Merchants & Manufacturers as to recent sales volume, earnings and dividend payments."

C. A., Sandusky, Ohio

Consolidated net earnings of United Merchants & Manufacturers Inc. for the fiscal year ended June 30, 1953 were $9,302,268, equivalent to $1.98 per share. This compares with net earnings for the year ended June 30, 1952 of $7,004,748, equal to $1.49 per share. As in the prior year, the account of the Argentine operating subsidiary has been eliminated from the consolidated statement because of restrictions of foreign exchange.

Total net sales for the fiscal period ended this past June 30 amounted to $307,563,592 including inter-company sales of $19,365,575. For the previous year, these figures were $283,839,807 and $28,347,373.

Working capital showed an increase of $3,514,696, with current assets of $125,742,506 and current liabilities of $54,557,503. Total net worth was $94,327,947 compared with $89,754,675 last year.

Conditions in the textile industry are keenly competitive. The company has improved its financial position and its plants and with the increased efficiency and diversification of the organization, operations in the future are hopeful.

Agreements have been made as of October 1, 1953 for the acquisition of all the outstanding preferred and common stock of A. T. Julliard & Company, Inc. The principle products of this well known textile manufacturing concern include fine woolens, cotton corduroys and velveteens. The price to be paid for this company

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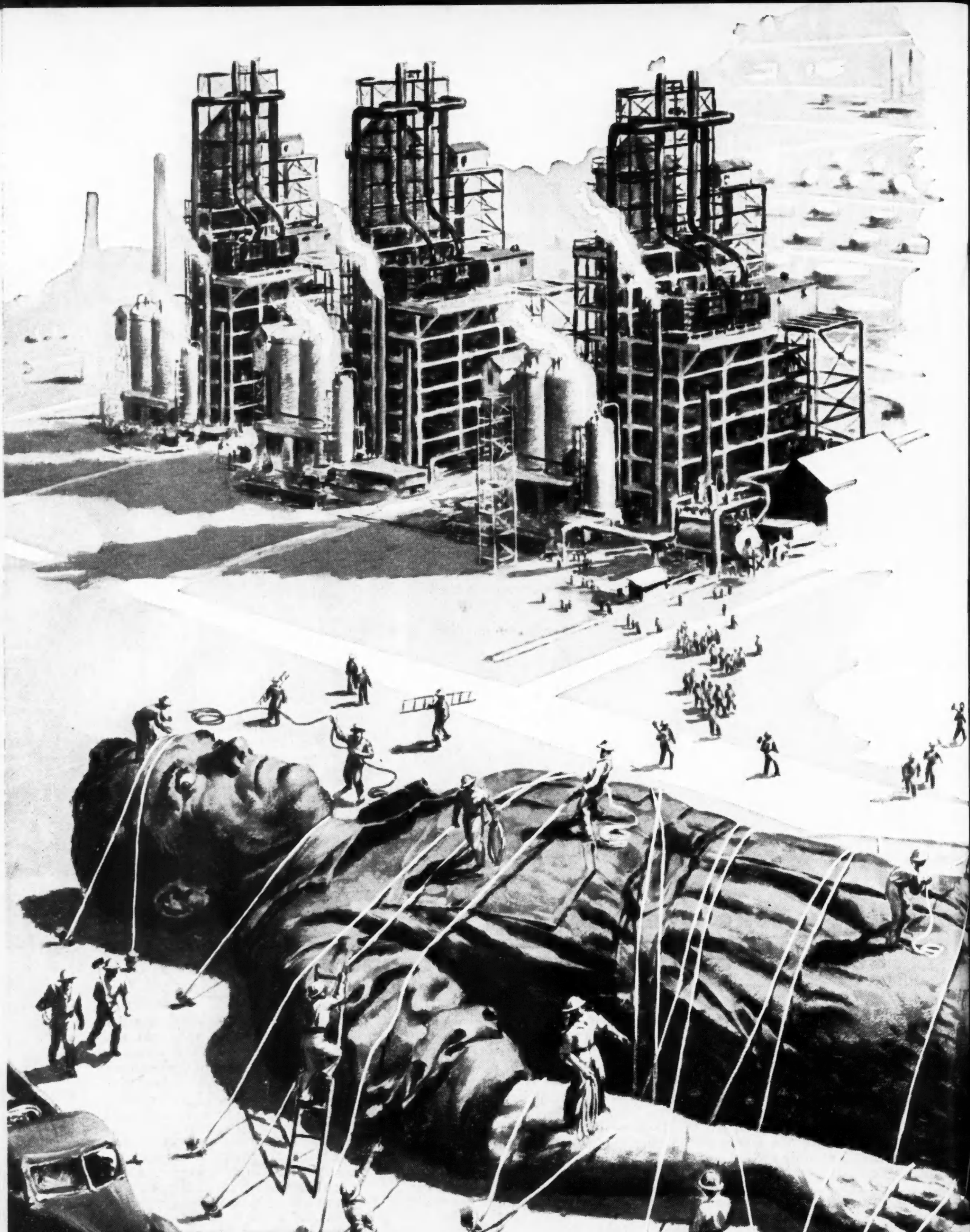
AL SCHMIDT

Why Belgium Succeeded

(*Continued from page* 133)

hot and humid West Africa, where the British are principally traders and administrators keeping strictly apart from the natives, the thin layer of educated and semi-educated natives has taken up nationalism and has the British on the run. The consensus is that the British are retreating faster than is necessary and in giving the nationalists full rein are only making it difficult for other European powers.

On the Gold Coast—now called Ghana by the Africans—the British set up American-educated Mr. Nkrumah as Prime Minister with African majority in his Cabinet. The key posts, such as finance, are still in the British hands and the British Governor retains the right of veto. While Mr. Nkrumah is willing to go slowly and cooperate with the British, particularly in view of the shortage of qualified Africans, the radical opposition which has communist affiliations is demanding self-rule now. The pro-communists recently won the control over the Ghana labor union movement and the situation portends trouble.

The growth of communist influence is less obvious in Nigeria which together with the British Cameroons is a huge country with almost 30 million people. If and when the British pull out—the date for self-rule is set for 1956—there may be three Nigerias instead of one. In the eastern third the Christianized Ibo people are dominant; while in the western third the Christian Yoruba. The North, which is Moslem and behind the east and west in education and politics, wants the British to stay until it catches up.

While the northern and southern Nigerians are ready to leap at each other's throats when the British pull out, a similar situation exists in Sudan, where the Christianized southerners abhor the thought of being ruled some day by the northern Moslems. It is not idle imagining that the end of the colonial rule and the emergence of divers nationalist and religious groups may bring on bloody contests and population shifts such as have taken place in India. The communists may be expected to confuse the situation still more in order to fish in muddy waters and embarass the West.

In British East Africa the situation is complicated by the presence of white settlers, the exceptions being Tanganyika and Uganda.

While it is difficult for an outsider to write about the causes of the Mau Mau rebellion in Kenya it would seem that a land hunger of the Kikuyus—a tribe whose membership increased from about 100,000 at the turn of the century to almost a million—is one of the main causes. The detribalization without compensating opportunities may be another reason for the revolt which is essentially atavistic, attempting to establish the conditions which existed prior to white settlement. However, the fact that the leader of Mau Mau, Jomo Kenyatta, is Moscow trained indicates that the communists are probably fanning the flame.

The riots in Nyasaland and the unionization of South Rhodesian mining workers also indicate that the communists are masterminding the native opposition to the Central African Federation, a new political unit set by London, linking Southern and Northern Rhodesia with Nyasaland, a colony chiefly known for its tobacco and tea plantations. The Federation is largely the achievement of some 200,000 white settlers who live among some 7 million Africans who are opposing it in the fear that home rule by the whites will lead to segregation and oppression.

This sketch of forces swelling below the surface in Africa should bring home to the reader the importance of human relations in that largest continent. Africa, to repeat, represents a challenge and an opportunity to the free world. Intelligent consideration of the problems involved is necessary as well as much good will on the part of the Europeans and the Africans to work out their problems on a friendly basis. Failure to do so would be a victory for the communists.

Income Opportunities in Sound Bonds

(*Continued from page* 145)

under a lease running to the year 2,274 by the New York Central Railroad which guarantees unconditionally payment of principal and interest. The issue is not sub-

ject to call.

Southern Railway, Memphis Division, 1st Gold 5s of 1996, currently sell around 103½, to yield 4.80 to maturity. These bonds, not subject to call, are secured by a first lien on approximately 484 miles of road, and a first collateral lien on about 34 additional miles, through pledge of $900,000 1st mortgage bonds and $99,400 stock, both being the entire issues of the Memphis & Charleston Railway. The 1st gold 5s underlie $71.8 million Southern Railway development and general 4s, 6, and 6½s, which provides for retirement. Industrialization of the South has expanded and diversified the road's freight traffic with railway operating revenues increasing from $212 million in 1946, to $271.6 million in 1952. Dieselization of motive power, mechanization of facilities and other improvement have raised operating efficiency which finds reflection in growth of net railway operating income from $19.3 million in 1946 to $36.7 million in 1952. Last year Southern earned its fixed charges 5.21 times, compared to 4.12 times in the previous year, and 1.92 times in 1946.

New Problems on the Horizon for Natural Gas

(*Continued from page* 138)

was obtainable in Texas as low as 5¢ per mcf and purchase contracts based on these low prices have of course been very profitable; prices have now arisen to around 10-15¢ and in some instances as high as 20¢.

Because most of the pipe lines and wholesalers have purchased gas on contracts running for some years ahead, they have not as yet felt the full brunt of these high prices. Nevertheless, they have had to seek substantial rate increases from both the FPC and the state commissions to reimburse them for this rising trend in the cost of gas. Of course if some agency could effectively regulate the cost of gas in the field this might be a partial remedy. There has been a legal debate for some years as to whether the Natural Gas Act authorizes the FPC to regulate gas at the source and the Supreme Court may soon decide to give a final answer to this issue. Meanwhile, the oil and gas companies claim that with rapidly rising costs of new drilling it is necessary to obtain better prices for gas as an inducement to develop new resources and thus guarantee a long-term supply, which in turn is necessary to finance the construction and operation of the pipe lines.

Since most of the big distributors of gas do an interstate business, they must go to the FPC in Washington for rate increases, although the local distributing utilities file their rate requests with the state commissions, or in some cases deal directly with municipalities. Thus the major rate problems are now before the FPC, a large backlog of cases having accumulated. Fortunately, unless the commission acts definitely to disapprove them, they can be put into effect "under bond" by the utilities after a period of time, usually nine months. Under the previous Administration at Washington, apparently little constructive effort was made to speed up these cases, which were choking the commission dockets. Old-fashioned lengthy hearings were conducted without the use of "canned testimony" or other time saving methods. Under the new Administration, however, it is reported that efforts are being made to expedite proceedings. In the Mississippi River Fuel case and some other cases, decisions have been reached by a round-table agreement, avoiding lengthy hearings.

A good deal of the delay in some of the earlier cases was perhaps due to the importance attached by the SEC staff to the "cost of money" theory of rate regulation, and the time and effort required to develop the statistical data

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New Problems on the Horizon for Natural Gas

(*Continued from page 159*)

needed to carry out this theory. Thus, each important case became a battleground for opposing experts and analysts, and cases moved slowly. It is to be hoped that the new members of the commission will order the staff to abandon its insistence on the cost-of-money formula and to use a broader background of facts in reaching decisions.

Recently the new FPC Chairman, Mr. Kuykendall, told the Independent Natural Gas Convention at Houston that the commission expects to adopt a liberal policy toward the gas industry and that it has not set any arbitrary limits on rates of return. He said, "Adequate regulation of the natural gas industry can be given by temperate and considerate, yet firm and decisive, action on our part, and harassment and intimidation are not necessary or proper tools of a regulatory agency." More recently in another address, he went still further and said in effect that the FPC must give recognition to inflation and permit adequate earnings for expansion. He also indicated that regulatory procedure should give incentives for managerial efficiency and should warrant investor confidence. A gas company should not be subjected to ruinous competition, and regulation should function as a bulwark against public ownership.

These expressions of opinion are highly favorable from the utility viewpoint, but "the proof of the pudding is in the eating." The recent decision in the United Fuel Gas case (which Wall Street has been inclined to blame on anti-utility holdover members of the commission's staff) had proved very puzzling and disappointing. The commission announced that it was allowing a 6¼% rate of return as compared with 5½% in some earlier cases, and indicated that, in part, this was a reward for the parent company Columbia Gas because it has persevered in maintaining its equity ratio around 50%. However, after examining the detailed decision, officials of Columbia Gas contended that it was highly disappointing and that the commission's staff had imposed arbitrary accounting and rate regulations on United which would have the effect of actually reducing future earnings on the rate base to less than 4%. The commission quickly consented to reconsider the case and the final outcome is awaited as an indication as to whether the liberal ideas of the new commissioners will prevail over the entrenched policies and methodology of certain staff heads.

In studying the reports of the pipe line and wholesale gas utilities, it is necessary therefore to pay particular attention to their current rate problems—both the rates imposed on them by their gas suppliers, and their own applications for corresponding rate increases. If these increases have already been put into effect under bond, there is always some element of doubts as to whether the earnings are "bona fide." This makes it unusually difficult to appraise earning power of many of these companies, and about all the investor can do is to have faith that the companies will be allowed a fair rate of return. If dividends are well protected, there is little reason to believe that they will be reduced or omitted. The action of Columbia Gas in maintaining its 90¢ dividend rate despite the fact that it is not being fully earned, is reassuring in this respect.

The gas utilities are still planning a rapid expansion program over the next year or so. This will require continued large scale equity financing. Added to this are the uncertainties as to how promptly and adequately rising costs will be offset by rate increas. There has been rapid expansion in house-heating sales but it must be remembered that in some regions gas must still meet the competition of oil and/or coal. The advantages gas enjoyed earlier in the postwar period may be whittled down by the rise in gas costs, as compared with lower prices for competing fuels. While many gas stocks are attractive for yield, too much reliance should not be placed on appreciation possibilities except where favorable regulatory policy permits conversion of increased gross into net profits.

Dow Chemical Prepares for Atomic Age

(*Continued from page 144*)

characterizing the company's growth has not been accidental. This concern was among the first to dramatize the value of research. Large sums were devoted to scientific study and development with the result that Dow became the first to extract bromine from ocean water, the first to manufacture and fabrcate magnesium and the first to pioneer many plastics developments such as production on a commercial scale of styrene, chloroform and iodine. Progress in petrochemicals in recent years has been outstanding. Interesting potentialities in pharmaceuticals, agricultural chemicals and in plastics are foreseen.

To accomplish the vast expansion which has added facilities not only in the areas of major production—Michigan, Texas and the Pacific Coast—but also in the East, Dow has spent about $535 million in the last seven years and plans call for an expenditure n the current fiscal year of an additional $75 million. A large part of the funds for this improvement program has come from retention of earnings. Sums set aside for depreciation, amortization and depletion have increased substantially in recent years and in the current twelve months should prove almost adequate to meet the requirements for expansion. To supplement cash needs for workng capital, an issue of $100 million 30-year 3 per cent convertible debentures was sold to a group of investment bankers. Now that the expansion program is nearing completion, depreciation and amortization accruals should provide an adequate flow of cash to sustain working capital and possibly to permit more liberal dividend distributions.

In addition to directly owned and operated plants, Dow has several wholly owned subsidiaries as well as important investment in affiliated companies whch show promise of outstanding progress. The wholly owned Brabos Oil and Gas Company has extensive natural gas reserves with which to provide vital raw materials together with fuel for utilization in power plants. The company is understood to operate upward of 200 oil and gas wells. The Cliffs Dow Chemical Company operates a small plant in Michigan for distillation of hardwood. A wholly owned Canadian subsidiary is experiencing rapid expansion and is supplying a growing Canadian market with ethylene, chlorine, styrene monomer and other products. A new styrene-butadiene plant to produce latex materals

for the paint and paper industries is nearing completion and is expected to be placed in operation early in 1954.

New Interest in Glass

Among affiliated companies, Dow Corning Corporation, owned jointly with Corning Glass Works, shows interesting potentialities. This unit, which celebrated its tenth anniversary in the past year, has the largest silicone rubber plant in the world. Two additional plants to be used for the manufacture of materials essential to production of silicones are just getting into production. The $13 million expansion begun last year is well advanced.

Another affiliate is the Ethyl-Dow Chemical Company, owned jointly with Ethyl Corporation. This concern manufactures ethylene dibromide at Freeport, Texas, for use in production of anti-knock gasoline fluids, for which an increasing demand is evident. Capacity of the plant has been expanded about 25 per cent in the last year. The Saran Yarns Company, owned jointly with the National Plastics Products Company, produces synthetic fibres for textiles. One of the large carpet manufacturers is producing a new carpet woven entirely of saran fine fibre. Long wearability and stain resistant qualities of the product are stressed.

Dow's equity in earnings of these three associated companies in the last year after provision for applicable taxes totaled $1,992,527, suggesting that the investment in the operations offers considerable promise. Only dividends received, however, amounting to $900,000, were included in the parent company's earnings statement.

Reflecting the rapid growth experienced immediately after the war, when sales zoomed to record heights, net profit has mounted steadily with the exception of 1952, when excess profits taxes and other costs rose sharply to cause a setback of about $5 million from 1951. Earnings reinvested in the business have mounted to substantial figures, ranging from about $43.3 million in 1946 at the beginning of the postwar expansion to about $66.5 million in 1952. Net profit in the fiscal year ended last May 31 slightly exceeded $35.8 million, equal to $1.58 a share, compared with $35.8 million, or $1.65 a share on a smaller capitalization in 1952. Modest cash dividends have been supplemented by extras of 2½ per cent in stock since 1948 with the exception of 1951. Capitalization has increased to 21,986,862 shares of common as a result of the 3-for-1 split in September last year.

Although seasoned industrial stocks have sagged in a general reactionary trend this year and chemicals have been viewed with some skepticism because of apprehension over possible adverse effects of excessive inventories, Dow stock has met with relatively good support. The shares have remained well above their lows of 1951 and earlier years despite the exceptionally modest cash return. This behavior tends to illustrate the extreme popularity of growth stocks, and Dow in particular.

For Profit and Income

(*Continued from page* 147)

ings fell to 50 cents a share under general depression in 1932. Reflecting competitive pressures in the industry, they sagged further to a record low of 28 cents a share in 1940, and the stock hit an all-time low of 1 in 1941. But after an irregular intervening recovery, it has now reached new highs for six consecutive years, getting up recently to 42½ on an excellent

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For Profit & Income

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third-quarter profit report, a 75-cent extra dividend, and announcement that the regular dividend will be boosted to $2.50 from $2. The latter will put the total payments of 1952 and 1951 ($2 regular and 50 cents extra) on a formal basis. The comeback of this company, under aggressive management, is due to the addition of the popular Toni line of home permanents and other Toni hair preparations for women; and to renewed competitive gains in the razor and blade field. Earnings this year will apparently be around $4.20 a share, against $3.33 last year, a new all-time peak. They would be around $5.20 a share without EPT. Finances are uncommonly strong. On a current 6% yield basis, those owning the stock have adequate reason to sit tight; but we would not reach for it. Most of "the cream" is probably off.

Are Drug Stocks Fully Deflated?

(*Continued from page* 141)

marketed under the trade brand, Listerine, and a line of men's "Sportman" toiletries. Other products include tooth-brushes, combs and hair brushes, and a line of dinnerware, made of prolon plastics developed by Lambert which also sells this latter product to a number of industrial users. The company has not entered the antibiotics field.

Sales last year reached a record high of $31 million and another all-time high is indicated for 1953, with net income of $2.50 or better per share, compared to $2.20 in 1952 and $2.45 a share in 1951. The company is in a good financial position, but possible need of cash for additional plant and equipment, without impairing working capital, is likely to hold dividends to current annual rate of $1.50 a share. The stock, at current levels, while moderately priced is not outstandingly attractive.

Lehn & Fink Products Corp., has confined its interests to research, marketing and distributing proprietary drug products and cosmetics. It has no direct interest in the ethical drug field. For the sixth consecutive year net sales for 1952-53 showed a gain, increasing to $22.8 million, an all-time high, with net earnings matching this achievement, producing per share net of $3.03 a share for the common stock, against $2.39 a share in the previous fiscal year, and $2.65 a share for the 12 months to June 30, 1951. Current liabilities totaling $3.5 million were offset by current assets of $10.1 million, including $4.8 million in cash, U. S. Government and other securities. The stock has yet to develop investment status, and at its current price around 15, and yielding 8.3%, is not especially attractive.

McKesson & Robbins, Inc., is a combination manufacturer of medicines and toiletries and a wholesale distributor of drugs and chemicals, the latter being its primary business, augmented by the distribution of wines and liquors. Total net sales have increased steadily in each of the last 13 years, reaching an all-time high in the fiscal year to June 30, last, of $460.9 million, a gain of $24 million over the previous year's volume. This growth reflects continued increases in sales in wholesale drugs, the products of the company's own laboratories, and the chemical division, while the liquor business, showing some improvement, failed to improve its profit margin. Net income, however, increased to $3.81 a share from $3.60 for the previous year. Sale, early in 1953, of $15 million 3½% debentures added substantially to working capital. At June 30, this year, current assets amounted to $140.9 million. Current liabilities at the same time stood at $43.5 million, leaving $97.4 million as net current assets. The stock at 36 currently selling about 2 points above its 1952-53 low, is reasonably priced, especially in view of the 7.1% yield on the annual $2.50 a share dividend rate.

Mead, Johnson & Co., for the greater part of the last 50 years has concentrated in developing through its own research or in cooperation with medical institutions various special food and vitamin products for use in the diet of infants, children, and adults. Its products include "Pablum," vitamin and mineral-enriched cereals, sold by grocers and druggists, Mead's Dextri-Maltose, Levugen, a sugar fructose, having definite advantages of dextrose in intravenous administration, and Sustagen, a high protein, high energy food product, regarded as particularly valuable for feeding by tube to the stomach of patients unable otherwise to take food. Net sales for 1952, again set a record at $28.7 million, compared with $26.5 million for the previous year, for a gain of 8½. Net earnings, however, were affected by increased expenditures for the expansion of research and product development program, and non-recurring expenses in connection with change in label design for the entire line of products except Pablum, and for studies in preparation to the carrying out of long-range plans to achieve still greater efficiency in operation and increased sales, as well as expanding the research and product development program. Consequently net for the common stock was held to $1.15 a share, against $1.19 in the previous year. Sales in the first half of 1953 ran considerably ahead of a year ago, net volume amounting to $15.4 million, a gain of $1.2 million over that shown in the first half of 1952, with indicated earnings close to $1.40 a share, or double annual dividend needs of 70 cents a share. Mead, Johnson has a stable line, is gradually developing other products, and appears to have good growth possibilities. The stock at current prices does not appear overvalued.

Two Additional Companies

Rexall Drug, Inc., is primarily an operator of approximately 255 retail drug stores in the U. S., and about 34 similar units located in Canada. These constitute the Rexall retail chain which is augmented by close to 10,000 independent stores operating under Rexall franchise, all featuring Rexall manufacturing subsidiaries' products that meet with severe competition. A recent acquisition, V.C.A. Laboratories has been engaged for some time in vigorously promoting sales of "Rybutol" and other proprietary vitamin products. Despite increasing net sales in each of the last three years, with 1952 volume at $178.2 million, per share earnings have ranged between 55 and 58 cents a share, those for 1952 amounting to 56 cents a share. Some improvement is anticipated for 1953, estimates placing this year's net around 80 cents a share. The company is carrying a rela-

tively heavy burden in fixed charges, and the stock at about 6 must be regarded as speculative.

Sterling Drug, Inc., one of the largest manufacturers of professional and consumer pharmaceutical specialties, also produces a variety of packaged medicines, and household and toilet articles, all having world-wide distribution. Research is constantly adding to the list of pharmaceuticals.

Net sales in 1952 were at a record high of $157.1 million. Net earnings, however, fell to $2.63 a share from $2.91 for 1951, the decline reflecting the higher costs in wages, freight rates, and many materials. Economies effected by reducing controllable costs and indicated record sales this year presage 1953 earnings of close to $2.95 a share providing ample protection for the current $2 annual dividend rate. The stock at 35, yielding approximately 5.7% at current price, is worth holding for income as one of the more stable drug issues.

Vick Chemical Co., which achieved initial success in the manufacture and sale of Vick's specialized home medications, by a series of acquisitions in a little less than a decade, together with broad research activities, has expanded operations to embrace the manufacture of pharmaceuticals, biological, and surgical items for the medical profession, a broad line of fine chemicals, plastics, cosmetics, and men's and women's toiletries. While Vick home medication products have continued to show steadily rising sales, diversification has resulted in a build-up in pharmaceuticals, chemicals, and plastics, to where sales of these divisions in the 1953 fiscal year came close to equaling those of the Vick products. Net sales, including cosmetics for the year to June 30, last, were at a record high of $59.9 million, 11% above the previous year, and produced net earnings of $3.18 a share for the capital stock, compared to $2.46 in the previous year. In all probability, the company will continue its conservative dividend policy. It has strong finances but has indicated a desire to be prepared to expand operations of present divisions and take advantage of opportunities to develop further diversification. At its current price around 28, the stock is selling to yield 4.2%, and as such would be more suitable for investors interested mainly in long-term growth projects.

Stocks that Have Made Successive Highs in 1950-1951-1952-1953

(*Continued from page* 135)

reasons for the unusually good record of the fifteen companies listed. They are submitted to the attention of readers who may wish to have a list of this class of stock available for future use. Owing to present uncertainties in the market, however, except where indicated new purchases should be deferred until a more favorable opportunity. More specific advice is given in the individual comments, particularly with regard to whether existing positions in these stocks should be maintained. In several cases, even where further growth may be expected, it has been suggested that retention is inadvisable due to special circumstances. Where retention has been recommended, this has been essentially on the basis of the long-term expectations forecast in the four-year record 1950-1953.

What 1953 Third Quarter Earnings Reports Reveal

(*Continued from page* 127)

tively steady in the September quarter and were $7.8 million against $7.9 million in the June quarter. For the nine months, sales were $23.2 million, about $1 million higher than in the same period the year previous.

With six plants in the South and Southwest, the company has been enlarging facilities at both Tampa and Houston. The latter, when completed in 1954, will provide additional capacity of 1,250,000 barrels of cement annually, or about 11% of existing capacity.

Ending of the excess profits tax at the end of the year, which amounted to almost $1 million in 1952, or the equivalent of about 90 cents a share, would be a considerable benefit, assuming total sales hold up. Higher prices instituted last April have tended to widen profit margins moderately but the company is confronted with increasing competition, owing to the enlarged total cement-producing capacity of the nation. On the other hand, it is operating in extremely active regions and should continue to benefit from these local activities as well as the expanded road-building program. Fourth quarter earnings should approximate those of the third quarter, producing earnings for the year around $5 a share.

Republic Steel Corp. After taxes

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What 1953 Third Quarter Earnings Reports Reveal

(*Continued from page* 163)

and other charges, net income for the third quarter was $14 million compared with $14.9 million in the preceding period. This amounted to $2.30 a share and $2.46 a share respectively. A decline in sales of from $309 million to $292 million accounted for the slight decline in net income. Federal income taxes were about $4 million less for the period, amounting to slightly under $30 million. Depreciation and depletion were about the same, at $10.6 million. For the nine months, sales were $894 million against $619 million a year ago but the latter lower volume was accounted for by the two-months strike. Earnings were $7.02 a share against $3.42 a share for the full nine-months period, a very substantial increase.

Charge on Amortization

Approximately $1 a share is being charged off to the company's five-year amortization program, technically reducing earnings below what they would have been without this charge. Approximately $24 million a year is now being charged off on this account but the company receives a benefit in the equivalent cash flow which the president has stated is being utilized to reduce debt.

The company does not state its excess profits tax but owing to the low earnings base on which its tax is computed, Republic is assumed to be more severely affected in this respect than other comparable steel companies. For this reason, the prospective ending of EPT at the end of the year should act as a considerable cushion in the event that steel operations decline next year.

From present indications, fourth quarter earnings will hold up well though probably slightly off from the third quarter. At least, these are the general indications for the industry. A tentative estimate for Republic's earnings this year would put them at between $9-$9.50 a share.

Libbey-Owens-Ford Glass Co. Net earnings were approximately $5 million for the third quarter, compared with $4.6 million in the preceding period. This was equivalent to 96 cents a share and 91 cents a share respectively. For the nine months, earnings were $13.5 million against $11 million, or $2.62 a share compared with $2.14 a share.

Sales were not indicated but, according to the president, were in "substantial volume". In the second quarter, they were $57 million. For the nine months, they were about $10 million, slightly under the June quarter and about $1.5 million under the March quarter.

Last year, excess profits taxes were estimated at $2,250,000 or about 45 cents a share and in 1953 were probably somewhat higher. Ending of this tax, consequently would produce substantial savings for stockholders.

Toward the end of July, it was stated that backlogs were large and that new orders for glass were heavy due to active home construction and automotive output. Some decline, however, may be expected with any tapering-off in auto manufacture. Earnings for the full year should be about $3.25 a share compared with $2.88 a share in 1952.

Monsanto Chemical Co. Net earnings for the third quarter were $6.1 million, compared with $7.6 million in the preceding period. This was equivalent to $1.15 a share and $1.43 a share respectively. The difference in earnings is accounted for, in part, by a decline of $7 million sales, these amounting to $82.7 million in the September quarter against $89.7 million in the June quarter. For the nine months, net earnings were $19.6 million compared with $16 million in the corresponding period of 1952. This was equivalent to $3.65 a share and $2.97 a share respectively.

Approximately $23 million was paid out in federal taxes for the nine months, and total taxes for the year may be well above $30 million. In 1951, a comparable year in regard to net income, excess profits taxes were $7.8 million. It is obvious that the ending of this tax next December should have a beneficial effect on earnings and in the event of a decline in sales next year would have a substantial cushioning advantage. Based on results for the first nine months, it is estimated that the company will earn close to $5 a share, compared with $2.29 a share last year.

10 Stock Groups With Demonstrated Stability

(*Continued from page* 125)

of $2.40 annually, has paid uninterrupted dividends for 25 years. Household Finance, one of the largest companies in the industry, has increased net earnings for its common stock from $3.52 a share in 1949, to a record high of $4.58 in 1952, and will, it is estimated, show $4.85 a share for 1953. The company has paid dividends in every year since 1926. The current rate of payment is $2.40 a share annually, and stockholders early this year received an extra of 10% in stock.

Household Finance common has scored a new market high in each year since 1950, moving up from 38⅜ to a 1953 high of 57½. From this level it has reacted to a low this year of 42, from which it has since recovered to around 45½, at which price the annual cash dividend yields 5.2%. Beneficial Loan common has had a parallel movement, showing a price gain since 1950 from 26¾ to a 1952 high of 38, this price being duplicated so far this year. The stock has exhibited resistance to pressure on the general list, reacting less than five points to a low of 33⅛, recovering, at this time, to around 35¼, where it yields 6.8%.

Tobacco Companies

Stocks of the tobacco companies, especially those of the leading cigarette manufacturers, catering to a constantly increasing mass market, hold high rank for stability of earnings and dividends. American Tobacco and Liggett & Myers, two of the industry's leaders have paid dividends without interruption for 49 and 42 years respectively. American Tobacco's earnings since 1950 have ranged from $7.17 a share in that year, to $5.57 in 1951, and $4.79 a share in 1952. In the same period, Liggett & Myers showed $7.06 a share for 1950, $5.19 in 1951 and $5.11 last year. Price controls in the two latter years restricted profit margins. These controls were lifted early in 1953, and indications are that earnings of both companies are again in an uptrend, it being estimated that both companes will show net equal to $6.00 a common share for this

year. American Tobacco has maintained a $4 annual dividend rate for the last 5 years, while L. & M., has paid $5 a share in each of the last 6 years.

Market action of the two issues reflect their investment quality. From a low of 65, recorded at the beginning of 1953, American Tobacco has moved steadily upward to a recent high of 77⅝. The stock is currently around 76¼, where it yields 5.2%. L. & M., began the year selling at 74, advancing to 82 last August, and is now selling around 78½, to yield 6.3%.

Public Utilities

Good grade utility common stocks represent prime defensive issues. Industrial expansion and population growth are creating greater earnings stability and laying the groundwork for further earnings gains for these companies. There are a number of outstanding issues in the group, one being Consolidated Gas Electric Light & Power Co. of Baltimore which has a 1949-1952 earnings range of $1.45 to $1.86 a share for its common stock, with 1953 net estimated at an all-time high of $2.00 a share, against annual dividend requirements of $1.40 a share in effect since the 3-for-1 split in 1950.

Another in the group is Southern California Edison, having stable earning power with net per share of common ranging from $3.18 in 1951 to $3.33 a share in 1952. Unfavorable water conditions in 1953 at its hydro-electric plants, together with a prolonged labor dispute delaying completion of a new steam generating station created higher costs and made necessary purchase of part of power requirements from outside sources. Net for 1953 will probably be restricted to $2.65 a share, providing nevertheless ample coverage for the $2.00 a share annual dividend rate. Southern California Edison is serving a rapidly growing territory and barring a recurrence of unfavorable developments experienced this year should resume its earnings uptrend in 1954 and subsequent years.

The market action of the stock reflects this view. The issue, after touching a 1953 high of 39⅜, reacted to 33½ in June, and has since recovered to 36¾, at which price it yields 5.4%. Consolidated Gas of Baltimore has moved within a 4¼ point range between a high of 28 and a low of 23¾, this year. At its present price of 26¼, the stock is selling to yield 5.3%.

Chain Variety Stores

Chain variety store companies represent a defensive industry the characteristics of which are steady earnings and stability of dividend payments. F. W. Woolworth Co., long a leader in this field, has paid dividends without a break for 42 years, the annual rate for the last 7 years being $2.50 a share. Its range of earnings has been $3.83 a share in 1950, $3.22 in 1951 and $3.25 in 1952, with 1953 net estimated at $3.50 a share. S. H. Kress & Co., another of the foremost variety chains, has a 36-year record of uninterrupted dividend payments, with the current $3 a share annual rate being in force since 1949. The company's 3-year range of earnings has been from $5.12 a share in 1950 and $4.26 in 1951, including some non-recurring profit in both years, to $3.89 a share in 1952. It is estimated that the latter figure will be duplicated for the current year.

The market for both stocks is marked by comparative price stability For example, Woolworth's price range this year from 48 to 42⅞, represents a difference of but 5⅛ points between the high and the low. The stock is now selling around 43½, to yield 5.7%. Kress has had a 1953 range of 9¼ points from a high of 57¼ to a low of 58. At its current price around 51½, the stock is selling to yield 5.8%.

A Projection of What to Expect from Taxes

(*Continued from page* 122)

reductions in corporate income rates and excises, and no new taxes are imposed, the Treasury faces a deficit at the end of the current fiscal year of around $6.5 billion, which includes a revenue loss as a result of the January 1 reductions of around $2.5 billion and a $4 billion deficit which has been forecast with present tax schedules.

Openly, Treasury officials state they have come up with no solution of the tax problem, and they are equally frank in admitting that 1954 being an election year, it will be tough sledding to persuade Congress to impose new taxes or cancel the cuts now scheduled for April 1.

There have been two slight indications, however, that Congress may reluctantly go along with new taxes and postponement of scheduled reductions. Representatives Richard M. Simpson (R., Pa.) and Hale Boggs (D., La.), members of the tax-writing Ways & Means Committee, have given possible clues to Congressional thinking. The former recently said he didn't see how the April 1 cuts could be permitted in view of the need for revenue to "even approach a balanced budget," while the latter took a similar view. Mr. Boggs also predicted that many Democrats, although generally opposed to excise or sales taxes, would "go along" for a change in the law.

Alternatives to the automatic tax cuts and a manufacturer's tax are to cut Government expeditures drastically in the next fiscal year, or return to the continuing deficit days of the Truman Administration, something the Republicans solemnly pledged to end with both a balanced budget *and* tax relief. Cuts in expenditures large enough to be of help in the looming fiscal crisis would necessitate big reductions in the defense program—our military build-up, aid to our allies and our atomic energy program,

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A Projection of What to Expect From Taxes

(*Continued from page* 165)

the largest items in the budget. Other Federal expenditures previously have been pared severely, leaving little or no "fat" there.

In summary, the writer looks for a manufacturer's tax on selected items sufficient to raise around $5.5 billion, continuation of the corporate rate and excises at present levels and some budget cuts, largely in the field of foreign aid. Not a cheering picture, to be sure, but a picture we must live with for two or three years if we are to get our fiscal affairs on an even keel and reach a balanced budget by fiscal 1956 with resultant increase in the value of the dollar and eventual tax relief.

Trend of Events

(*Continued from page* 116)

sense to stop giving more to those who already have done the best vis-a-vis rising costs. The cost-of-living has been effectively stabilized under the Eisenhower regime. Its August-to-August change has been a fraction of 1 per cent. Unfortunately for those who pay the freight, the escalator clause was won by the railroad employes just at the time when prices dipped a little a year ago, and when they got back up to the early-1952 line pay went with them.

Right after World War II, there was considerable embarrassment in Washington and London when it was discovered that the British had promised Malayan tin miners that whatever the Americans paid the Bolivians, the British would pay the Malayans. At the same time the Americans had promised the Bolivians that whatever the British paid the Malayans, the Americans would pay the Bolivians 2 cents a pound more. With escalator clauses for union employes of private industry, and Government supports at close to parity prices for farmers, this country is in a like absurd position. The fallacy in the cost-of-living index is that while it may satisfy statisticians it does not really provide a true picture. Nevertheless, in the form published it has a direct bearing on wages so that in effect it influences costs. This arbitrary and mechanical index has no place in determining such vital matters and its use in this manner should be terminated.

Answers to Inquiries

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is 574,321 shares of United Merchants & Manufacturers Inc. common stock.

Robert Hall Clothes Inc., the company's retail clothing chain, continued a planned program of country-wide expansion. During the year, 30 new stores were opened, bringing the total number in operation to 162. A long term lease has been negotiated covering sole occupancy of a 10 story building which is being erected in West 34th Street, New York City. These quarters will be large enough to consolidate all the executive and warehousing requirements with ample facilities to service 300 stores.

The Merchandising and Distributing Divisions have been active in their respective fields and have strengthened their styling and sellng organizations. Research into new fabrics and finishing techniques continues and has assumed great importance for the future.

Dividends in 1952 totalled $1.00 per share and 25 cents quarterly has been paid thus far in the current year.

R. H. Macy & Company

"The improvement in earnings of R. H. Macy & Co. in the past year has been gratifying. Do you have reasons for this improvement and also working capital position and prospects over coming months?"

C. E., San Francisco, California

Sales of R. H. Macy & Company for the 52 weeks ended August 1, 1953 totalled $332,583,000 as compared with $331,780,000 for the previous year (53 weeks). Net operating earnings after taxes for the year amounted to $4,874,000, or $2.20 per share of common stock, after providing for dividends on the preferred stock. The corresponding earnings after taxes for the previous year were $2,792,000, or 98 cents per share of common stock. In that year there was also a capital profit of $2,767,000, after Federal income taxes, resulting from the merger and sale of Macy's radio & television properties, which raised the total earnings and capital profit to $2.59 per share.

According to the president of the company, "last year was a period in the department store field of finding ways to offset cost increases. Our efforts in meeting these conditions have been vigorous. Our stores have generally succeeded in increasing their gross margins, primarily by lower mark-downs and in making cost reduction programs progressively effective. All of these efforts combine to bring about the significant increase in earnings which resulted from approximately the same sales volume as that secured in the previous year. Continuation during the year of substantial wage increases coupled with increasing difficulty in achieving adequate mark-ons as a result of intensified competition, still present a major department store problem."

During the year, the corporation borrowed $11 million on its 3¾% promissory notes issued to the Equitable Life Assurance Society of the United States. These funds were used to pay off the $6 million then remaining balance due to several New York banks on long term notes maturing this year and to supplement the working capital of the corporation. Pursuant to the loan agreement, the corporation will borrow an additional $4 million from Equitable by December 30, 1953 at the same interest rate. The total loan is payable $750,000 annually from January 1, 1959 and the balance of $4,500,000 on January 1, 1973.

Working capital increased from $51,592,000 to $56,381,000 and the ratio of current assets to current liabilities was 3.1 against 2.9 last year.

During the year, Macy's acquired three new stores. Two of these, located at Richmond and San Rafael, California, are operated as branches of the Macy's San Francisco Division. The third was acquired when the Davison-Paxon Company Division purchased Michael Brothers Inc. store in Athens, Georgia, thereby adding a sixth branch to that division. There are other new stores which are in various stages of completion. These include branches in each of three new shopping centers to be built in California in the Gross Bay area south of Oakland, in the San Jose-San

(*Please turn to page* 168)

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Answers to Inquiries

(*Continued from page* 166)

Clara area, and in San Mateo County on the peninsula. The L. Bamberger Company Division has two additional branch stores under construction, one just outside of Princeton and the other in Plainfield, New Jersey. These stores should be completed during the coming year. Additional space has been acquired by the Macy's New York Division to expand both its Parkchester and White Plains branches and the required alteration and construction work is already in progress at each of these stores.

While there has been evidence of contraction in some lines of activity, prospects for the second half of 1953 and the first half of 1954 appear favorable.

Dividends in 1952 totalled $2.00 per share and $1.60 has been paid thus far in the current year.

As I See It!

(*Continued from page* 117)

are not too far from solving the problem of the defense of the Suez Canal.

Despite some saber rattling and the whipped-up popular hysteria in both Yugoslavia and Italy, it looks very much as if it is a matter of only time before the 10-year old question of the Trieste territory is peacably settled.

The signing of the treaty with Spain promises to strengthen the defense of Western Europe and at the same time to speed up the economic rehabilitation of Spain, thereby reducing social and political pressures within that country.

The sagging morale of the French and their native allies in Indo-China has been bolstered by substantial military and economic aid. With the Vietnamese on the offensive now, there is a chance that communist aggression will be stopped for good and the vast resources of Southeast Asia kept out of the Kremlin's grasp permanently.

The Japanese Government has recognized the need for enlarging the country's army; the opposition of the socialists and the liberals is gradually waning, though it will take time before Japan becomes a bastion of the Free World in the Far East.

The most significant development from the viewpoint of future history is the Adenauer victory in Germany. This victory has swept away the opposition of the Socialists and the budding Nationalist parties, and has placed Germany, again the most dynamic country in Western Europe, squarely in the democratic camp. Moreover, Adenauer's victory points to the economic and military organization of Western Europe under strong, anti-communist Germany rather than under vacillating, communist-ridden France. A strong, prosperous Germany will exert an attraction that the wobbly satellite governments will find difficult to counter.

The cracks in the communist armor are widening. With his dynamic policy, Secretary Dulles is ready to pry them apart still more. Things are being done well, Mr. Secretary.

Market Acts on Technical—Rather Than Basic Factors

(*Continued from page* 119)

or another. Which way it will prove wrong in the present instance, only time will tell. The recession might be deeper or last longer or both than the consensus allows for. Or it might be even milder and shorter than is expected. Again it might be a moderate 10% or so, but last well beyond 1954.

Assuming a 10% lower level of industrial production in 1954 just as a tentative working hypothesis, it could be expected to cut total corporate pre-tax income like 20% to 25%. Allowing for the cushion of EPT relief in average industrial earnings and for well-maintained or higher utility earnings, that probably would cut total net profits by around 13% to 15%. The total this year probably will be around, maybe slightly above, $20 billion, against $18.6 billion last year and the record $22.7 billion in 1950, when taxes were lower. A 13% to 15% 1954 cut would leave total earnings around $17 to $17.5 billion.

Total dividends this year, on present indications, will be around $9.3 billion, a new peak, against $9.1 billion last year. The indicated payout will be around 46% or 47% of total profits. It will almost surely be higher in 1954, since recession-reduced needs for expansion outlays and for working capital, and higher total depreciation charges resulting from record 1953 investment in plant-equipment, will mean less drain on cash. A payout of 54% to 56% of the hypothetical 1954 earnings heretofore cited—compared with a prewar average closer to 75%—would support total dividends at near the current level. The "if" in this figuring, of course, is if 1954 production shrinkage does not exceed 10%.

Our market thinking remains middle-road – not extreme. We doubt the probability of wide movement either way over at least the next few weeks, if not for a longer time. As heretofore suggested, you should continue to hold conservative liquid reserves intact; and continue to emphasize investment quality, as well as special-situation profit opportunities, in portfolio adjustments.

—Monday, October 26

Tax Planning For Foundations And Charitable Giving

By WILLIAM J. CASEY, J. K. LASSER and WALTER LORD

Government policy resulting in high taxes and inflation has seriously weakened the finances of churches, private schools and charities. Inflation has increased their costs while high taxes have dried up large sources of support. In a new research study, "Tax Planning for Foundation and Charitable Giving," William J. Casey, J. K. Lasser and Walter Lord analyze the public policy which gives tax concessions for charitable gifts made by individuals and businesses. Their Study spells out how churches, charities and schools can aid in meeting the financial problems of individuals and businesses and, by doing so, increase their own financial strength.

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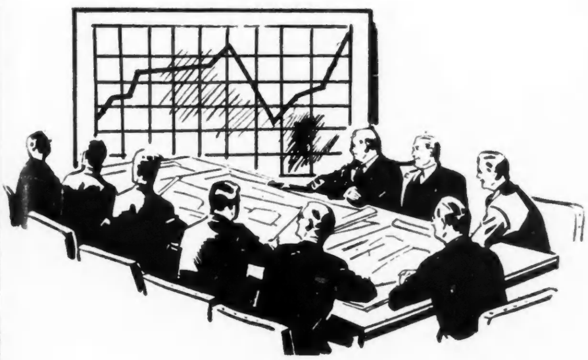

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